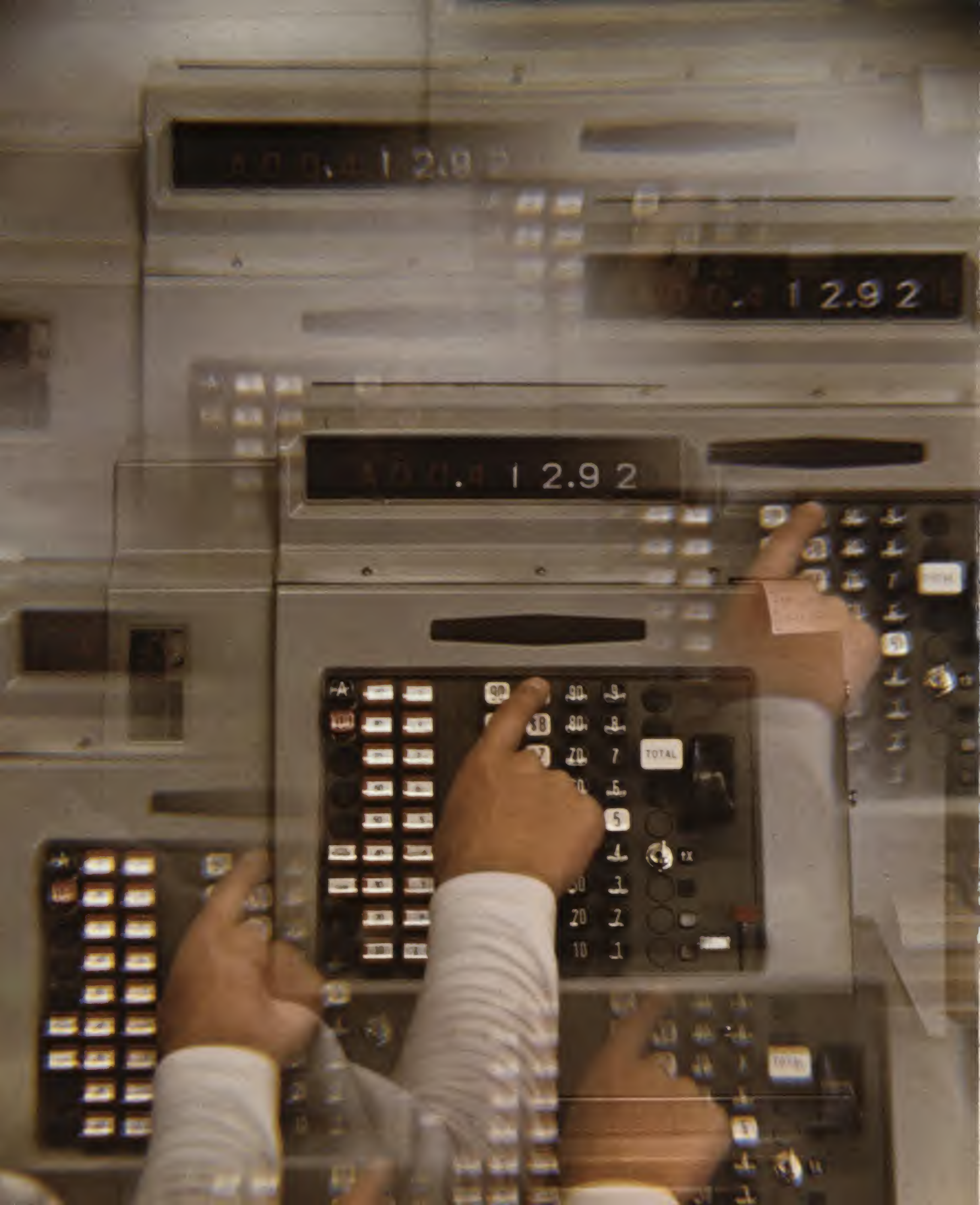
Zayre Annual Report 1971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TOTAL

Zayreserves...

Contents

A pioneer in discounting– the field that has grown so rapidly because it has suited the needs of the modern consumer so well–Zayre has led the way in developing this dynamic and still evolving retailing medium to a high degree of professionalism. Zayre's strengths as delineated in this report –managerial experience and know-how, market penetration, merchandising creativity and enterprise, buying power and skill, speed and economy of distribution, the scope and sophistication of cost control and information systems–all have contributed to Zayre's national service reputation . . . Zayre serves!

Financial Highlights

	1971	1970
Net Sales	**$797,550,000**	$683,131,000
Income before Federal Income Taxes	**17,717,000**	14,981,000
Net Income	**10,017,000**	7,663,000
Working Capital	**100,088,000**	87,294,000
Shareholders' Equity	**88,234,000**	73,538,000
Net Income per Common Share:		
Primary	**$2.06**	$1.62
Fully Diluted	**$1.95**	$1.54

Annual Meeting
The 1972 annual meeting will be held at 11:00 A.M. on Tuesday, June 6, 1972, in the Forum Room, State Street Bank and Trust Company, 225 Franklin Street, Boston, Massachusetts.

letter to shareholders:

The progress of your company in 1971 was gratifying. In the face of the difficult economic environment that persisted throughout the year, Zayre Corp. began to fulfill the promise of its store expansion programs, and achieved substantial growth in sales and the highest net income in its history.

Net sales rose $114,419,000 to $797,550,000, an increase of 16.7% over 1970.

Net income advanced 30.7% to $10,017,000, compared with $7,663,000 last year. Primary net income per common share improved to $2.06 from $1.62 in 1970.

These results reflect the efforts of the entire organization to control expenses, reduce shrinkage, and—as economic conditions improved toward the end of 1971—to increase sales.

The central operating and staff departments made an important contribution by developing a series of store-support programs aimed at achieving increased efficiencies and reduced expenses. The regional organizations, developed over the past few years, demonstrated their effectiveness by carrying out the extensive implementation of the various new and existing store operations programs as well as achieving a greater focus on individual store profitability.

The company reached an important milestone in its growth on November 26th with the opening in North Reading, Mass., of the 200th Zayre store. Altogether during the year, we opened 25 new Zayre stores, increasing our gross store area by 2,052,000 square feet and bringing the total number of Zayre self-service department stores in operation at year end to 204.

During 1972 we anticipate the opening of approximately 25 new Zayre stores. The continued growth of our industry as well as increasing competition, has placed a high premium on careful site evaluation. Accordingly, the Zayre market

research group, working in tandem with the real estate department, is concentrating increasingly on the selection of those sites which have the best and most immediate profit potential.

Thus, our store expansion program continues to stress the location of additional stores in the major markets we already serve and places an increasing emphasis on further penetration of the medium and smaller markets adjacent to and between major markets.

As part of this program we have developed prototype store designs ranging in size from 81,550 down to 43,000 square feet with the objective of achieving maximum flexibility and efficiency in matching store size to the needs of different communities. At the same time the new store interior and exterior design and layout have been modernized and improved.

Currently there is a growing awareness of the importance of achieving adequate market share when operating in multiple-store markets—a policy Zayre has pursued for many years in its "cluster" approach. This has led to an increasing interest within the industry in the sale of older store leases, which often have favorable rents, but do not serve current marketing objectives.

As part of this trend, Zayre, since year-end, has leased an existing unit in Racine, Wisconsin, to expand its position in in that area and has entered into arrangements to dispose of its three stores in Columbus, Ohio, on terms advantageous to the company.

In support of our growing operations, a major addition to our distribution network—a new 486,000 square foot facility at Mansfield, Mass.—is scheduled for activation in July. When it begins operations, the new center, which features advanced, automated equipment, will perform the overall consolidation and distribution services for our Northeast area. The Framingham facility, which currently serves these functions, will thereby have increased capacity to serve our rapidly growing volume of footwear shipments as well as the needs of certain other specialized departments.

Although the national economic recovery has proceeded at a slower pace than was originally anticipated, results for the second half of 1971 seem to indicate that it is under way. Most economists forecast continued steady improvement in 1972. As unemployment ebbs and consumer confidence expands, we anticipate meaningful volume gains for our established stores. Our 1972 sales results to date tend to support this view.

Thus, we believe the outlook for Zayre for 1972 as a whole is encouraging. Realization of the anticipated level of stronger sales coupled with further benefits from our programs to increase operational efficiencies should result in improved operating margins in the year ahead.

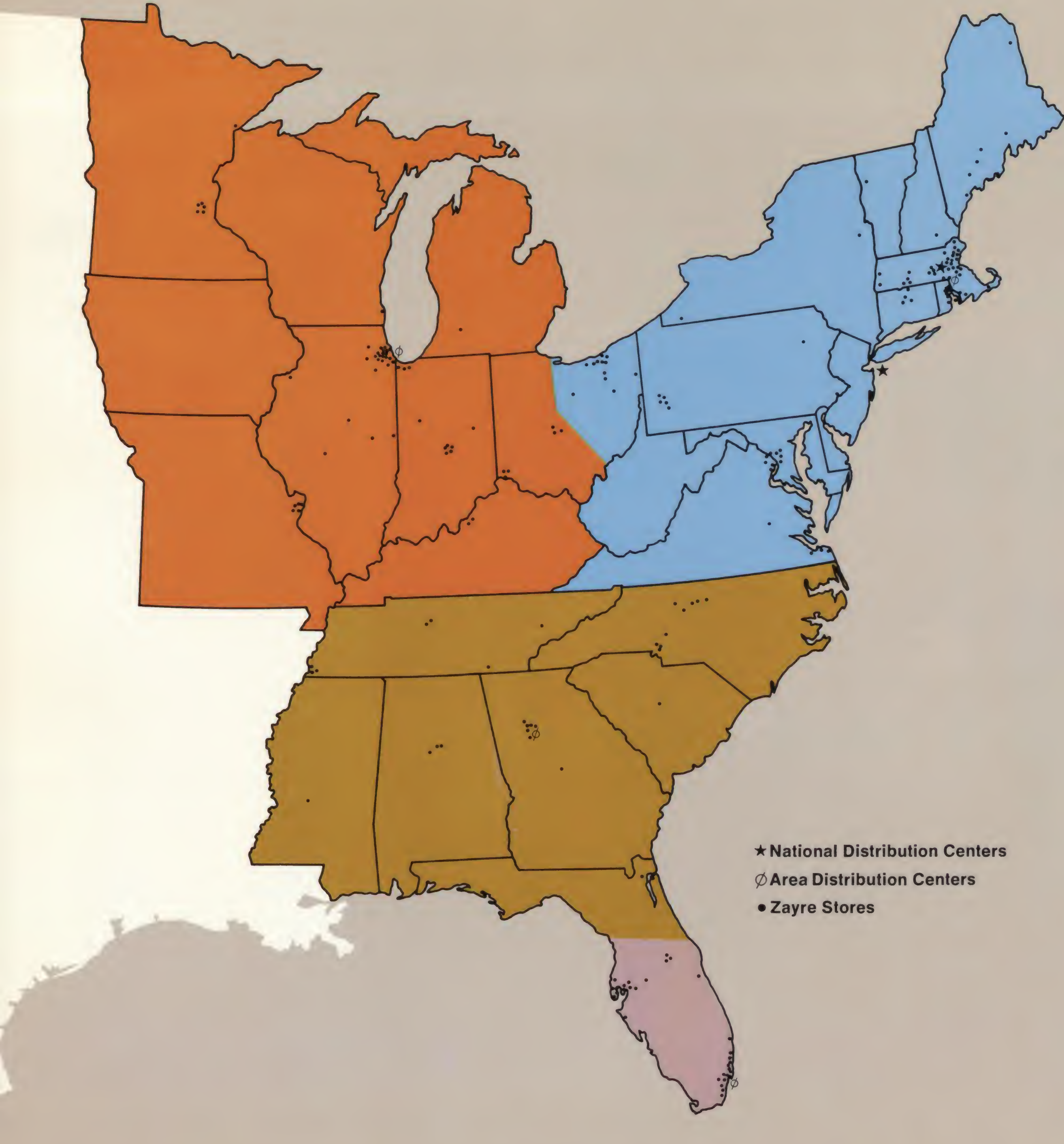
We note with sorrow the passing of Abram Berkowitz, trusted friend and adviser, who had served as a member of our Board of Directors since 1962. A prominent Boston Attorney, Mr. Berkowitz played an important role in the company's early organization and subsequent development.

People—from corporate headquarters to the check-out counters and stockrooms of each of our stores—are the organization's most important asset. Zayre owes its progress and accomplishments to the loyalty, energy and efforts of its 25,000 employees; the high competence of our thousands of suppliers in this country and around the world; and, most of all, to the continued patronage of our millions of customers to whom this report, as expressed in the phrase *Zayre Serves,* is appreciatively dedicated.

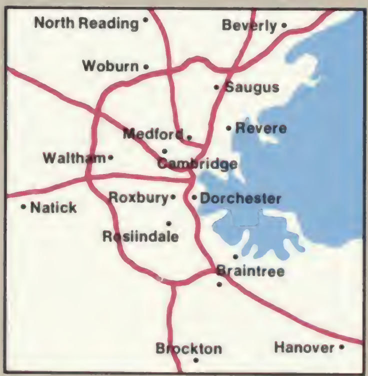
Max Feldberg
Chairman

Stanley H. Feldberg
President

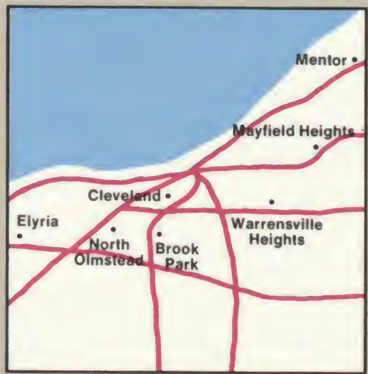
4 major store concentrations within distribution service areas



Major Marketing Areas

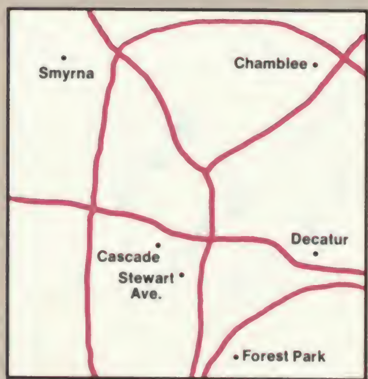


Boston

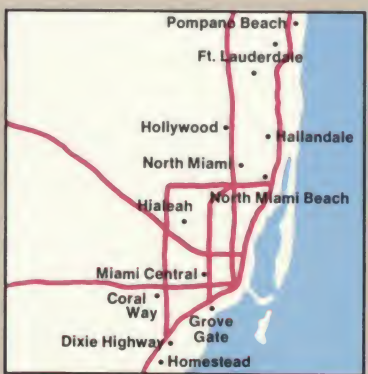


Cleveland

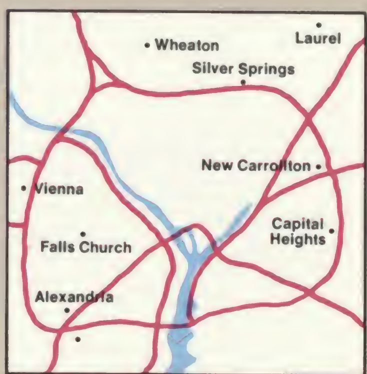
Chicago



Atlanta



Miami



Washington

State	Discount Department Store Operations
Alabama	3
Connecticut	4
Florida	31
Georgia	7
Illinois	25
Indiana	10
Kentucky	2
Maine	6
Maryland	5
Massachusetts	33
Michigan	1
Minnesota	6
Mississippi	1
Missouri	5
New Hampshire	1
New York	2
North Carolina	9
Ohio	18
Pennsylvania	7
Rhode Island	10
South Carolina	1
Tennessee	7
Vermont	1
Virginia	8
Wisconsin	1
Total Units as of Jan. 29, 1972	**204**

financial review

Analysis. Our improved financial results for the fiscal year ended January 29, 1972 were achieved against the backdrop of a very difficult economic climate. Clearly, the economy is recovering from the 1969-70 recession, but at a much more gradual pace than had originally been anticipated. Continued high levels of unemployment deterred the resurgance of consumer confidence.

Adding to the complexity of the economic picture was the unusual dilemma of escalating inflation in the face of a depressed economy. The President's dramatic announcement of Phase I Wage and Price Controls effective August 15, 1971 committed the nation to battle these problems. Phase II regulations which have continued this program impose a complex administrative burden on all businesses. However, as discount retailers, our emphasis is on price and value and therefore our objectives parallel those of the government's program.

Affected by this environment, the increase in sales during the year was almost entirely attributable to stores opened or acquired. Our own pattern of sales was relatively weak in the early months of 1971, improved in the middle of the year, and only began to show some real growth in the latter part of the year. This improving tone has continued into the first quarter of 1972.

Quarterly Results. Comparative quarterly sales and earnings were:

1971

Quarter	*Sales*	*Earnings*	*Per Share*
First	$158,581,000	$ 750,000	$ .15
Second	186,481,000	1,499,000	.31
Third	197,070,000	1,949,000	.40
Fourth	255,418,000	5,819,000	1.20
	$797,550,000	$10,017,000	$2.06

1970

Quarter	*Sales*	*Earnings*	*Per Share*
First	$137,250,000	$ 706,000	$ .14
Second	159,386,000	1,268,000	.27
Third	166,231,000	1,565,000	.33
Fourth	220,264,000	4,124,000	.88
	$683,131,000	$ 7,663,000	$1.62

Investment Tax Credit. A major part of the Company's fiscal 1972 capital investment qualified for the investment tax credit, which was reinstated by the government on December 10, 1971. This credit amounted to $720,000 (15¢ per share) and is reflected entirely in the fourth quarter results. Consistent with prior accounting practice, this amount has been shown as a reduction of the current provision for federal income taxes.

Shrinkage. Results for the year reflect meaningful further progress in our efforts to control and reduce shrinkage, a problem of our times and one that continues to be a major cost of doing business. Every level and division of the entire organization is fully involved and committed with the multiple programs launched three years ago to deal with this expense. Systems have been redesigned to provide better control and more information to serve an organization, which through training has become increasingly sensitive to the problem. This reinforces the efforts of our security personnel in the application of increasingly sophisticated techniques.

Inventories. Special characteristics of some of our newer operations, as well as changes over the years in our basic merchandising policies, have influenced our inventory levels. These factors include an increased emphasis on better in-stock positions on basic merchandise lines to provide improved customer service, an increased percentage of volume in slow turnover categories such as shoes, and a greater stress on more rapid recovery of stocks at the start of each new fiscal year. Nevertheless, fiscal year end inventories were higher than planned, and emphasis is being given to improving our sales to stock ratios.

Expense Control. Continued inflation puts a high premium on improved productivity. The company has pursued a varied and intensive program of containing and reducing expenses which has involved all divisions. Some examples are:

- Better utilization of man hours in the stores was achieved through the implementation of an improved payroll budgeting system.
- We impacted on rapidly escalating freight costs by a thorough analysis of rates and service requirements which resulted in redesigned routings and a somewhat increased use of private and contract carrier services.

- The new store prototypes involve more efficient utilization of space and tend to reduce occupancy expense.
- We established a standard costing system for distribution center services which has laid the foundation for more extensive and profitable use of these services by the merchandising groups.
- The total corporate insurance package has been redesigned to provide for increased coverages at significantly lower costs.

New Financing. In August 1971, $25 million of 8% sinking fund debentures due August 15, 1996 were sold. These debentures were offered in units consisting of $1,000 principal amount of debentures and five year warrants to purchase 12 shares of common stock at an initial price of $40 per share.

Approximately $10 million of proceeds was used to retire certain term debt of shorter maturity and the balance was added to working capital. Augmented by the net proceeds of this financing as well as earnings, working capital rose to $100,000,000, an increase of $13,000,000 over the prior year.

The Leasing Subsidiaries. Zayre Leasing Corporation continues to service the organization on all of its fixture requirements. During 1971, a total of $12,919,000 in term financing was placed with banks in communities where our stores are located, and a total of $5,375,000 was retired through the regular operation of the leasing program. The equipment promissory notes carry interest rates which fluctuate with the prime rate. The total interest burden of the leasing subsidiaries was substantially increased during 1969-1970, a period of rising interest rates, and benefited from the lower rates in effect during 1971.

Various Zayre Realty subsidiaries now own 18 properties which include Zayre stores as their principal tenant, in addition to four distribution center properties. The company also has an interest with others in 21 jointly owned completed shopping centers and 1 shopping center still under construction, in which Zayre is the principal tenant.

Credit Operations. The company makes use of a variety of credit programs. Instalment time sales plans financed by others are available in all stores in connection with the sale of appliances and other "big ticket" merchandise. Revolving credit is available in most Zayre stores through bank credit card plans, as well as a Zayre custom card program financed by an outside firm in some markets and by the company in others.

During 1971, Zayre-owned credit operations were centralized at Framingham, thereby eliminating separate operations in Chicago and Atlanta. At the same time a new computer program enabled us to handle our own accounting for receivables, thus displacing a purchased service. This has substantially reduced the cost of handling accounts while establishing greater control over receivables. Credit service is provided through a nationwide telephone network which enables the frontline cashier to obtain instantaneous clearance for every transaction from central computer files.

Zayre Credit Corporation, a wholly-owned subsidiary, was organized in 1971 to purchase and finance receivables in those markets in which we operate our own revolving credit card plan. This corporation should enable the company to finance its own receivables on an economical basis and defer payment of some of the related income taxes due to favorable tax treatment afforded such transactions. The total initial capitalization and subordinated debt of Zayre Credit was $2,000,000. Lines of credit have been arranged with three banks. At the end of the fiscal year, Zayre Credit owned $9,606,000 of receivables.

Personnel. Since our last annual report the following promotions and elections to officerships were made by the Board of Directors:

Joel Jacobson, Senior Vice President—*Sales/Operations*

Paul Kwasnick, Senior Vice President—
Finance and Treasurer

David Kaplan, Vice President—*Sales/Operations*

Malcolm L. Sherman, Vice President—*Merchandising*

L. R. Bennett, Assistant Vice President—*Regional Manager*

Leonard S. Oppenheimer, Assistant Vice President—
Regional Manager

Francis R. Mazzarelli, Assistant Vice President—
Regional Manager

J. Leonard Schatz, Assistant Vice President—
Market Development

Lee A. Silver, Assistant Vice President—
Sales/Operations

8 management

Zayre serves its customers by emphasizing efficient low-cost movement of merchandise from source to consumer.

Zayre management recognizes that its continued existence as a major general merchandise force in today's highly competitive and ever changing economy is dependent upon its ability to utilize effective distribution, buying and chain store operating methods to achieve consumer satisfaction.

The operation of a chain of large department stores is a carefully orchestrated effort conducted by a highly motivated, trained management group which weaves together a large number of diverse disciplines such as merchandising, operations, finance, advertising, and real estate.

The Zayre concept of satisfying the consumers' needs is founded on the fundamentals of providing convenience and value. Convenience is expressed in many ways including well situated locations affording easy access, plentiful free parking, generous evening hours and large assortments of wanted merchandise all under one roof. Value is the result of a low markup pricing structure keyed to the application of self-service principles on the selling floor and a sophisticated approach to containing all of the expenses inherent in the distribution process.

1. **Stanley H. Feldberg,**
President
2. **Burton S. Stern,**
Senior Vice President,
General Merchandise Manager
3. **Milton L. Levy,**
Senior Vice President,
Real Estate
4. **Max Feldberg,**
Chairman
5. **Paul Kwasnick,**
Senior Vice President,
Finance and Treasurer
6. **Sumner L. Feldberg,**
Executive Vice President
7. **Joel Jacobson,**
Senior Vice President,
Sales/Operations

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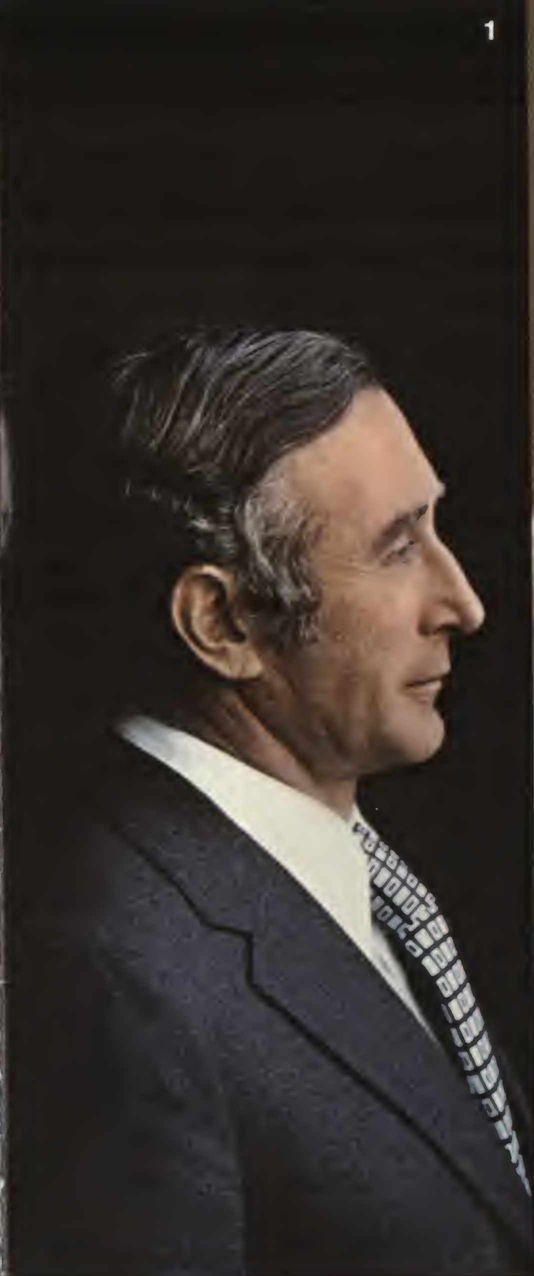

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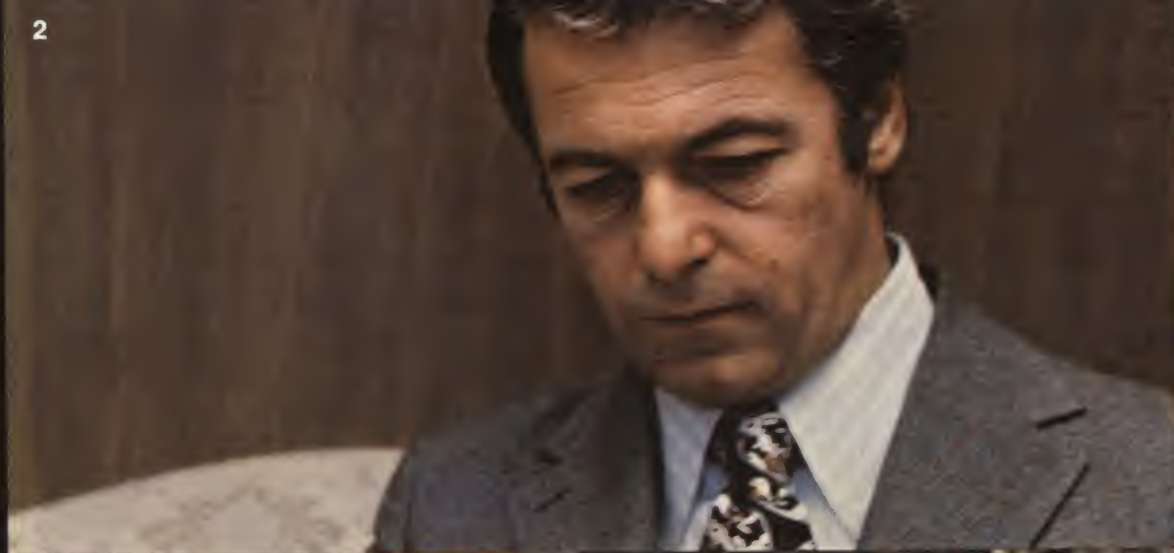

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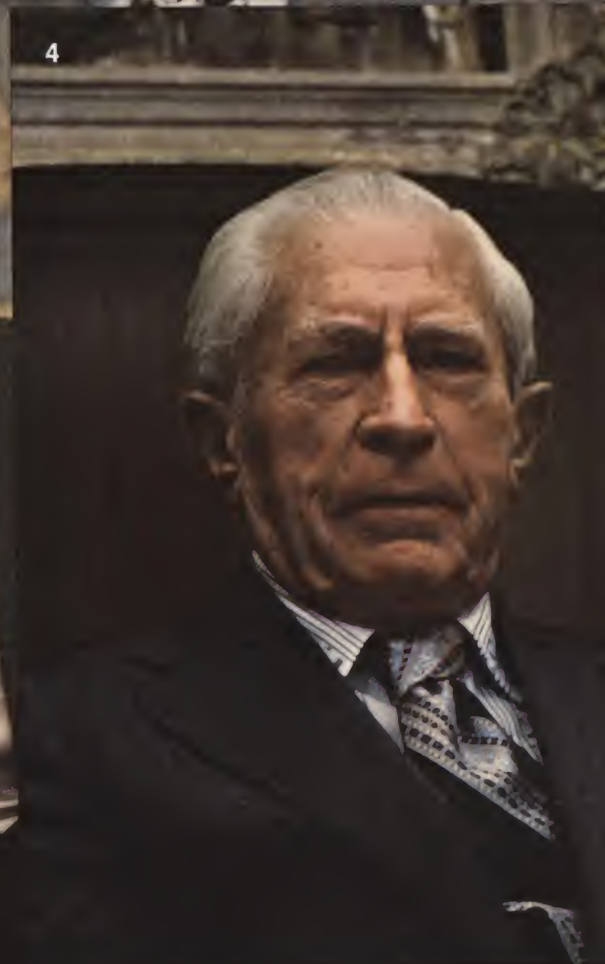

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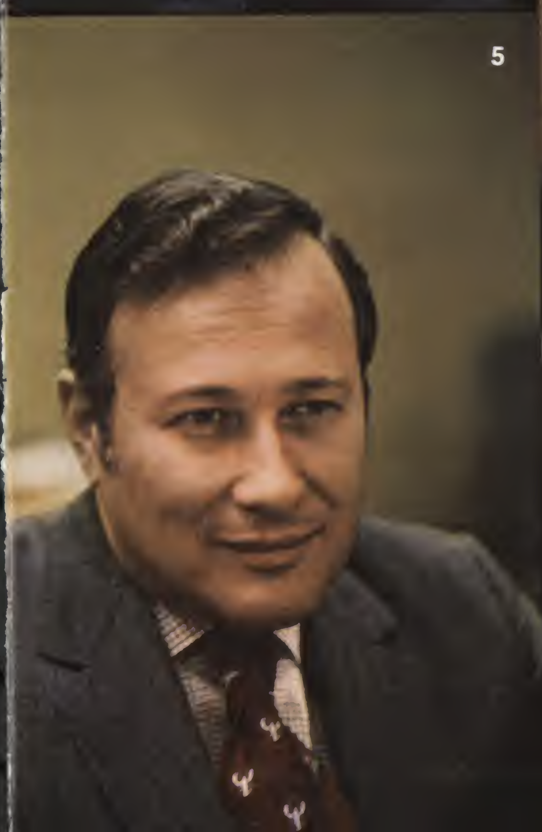

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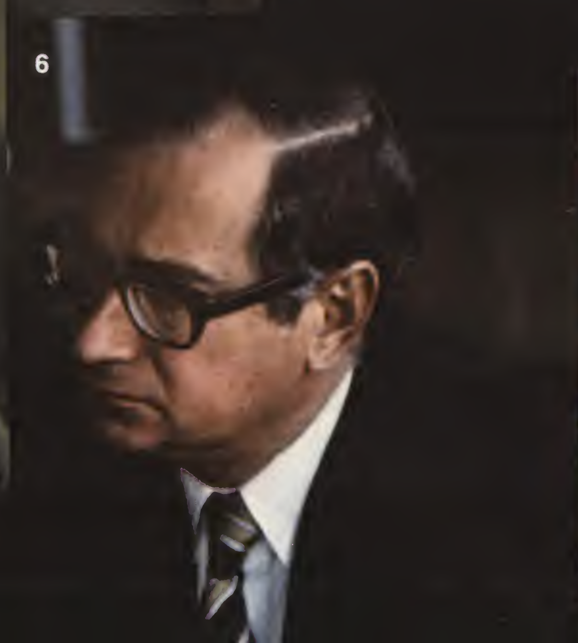

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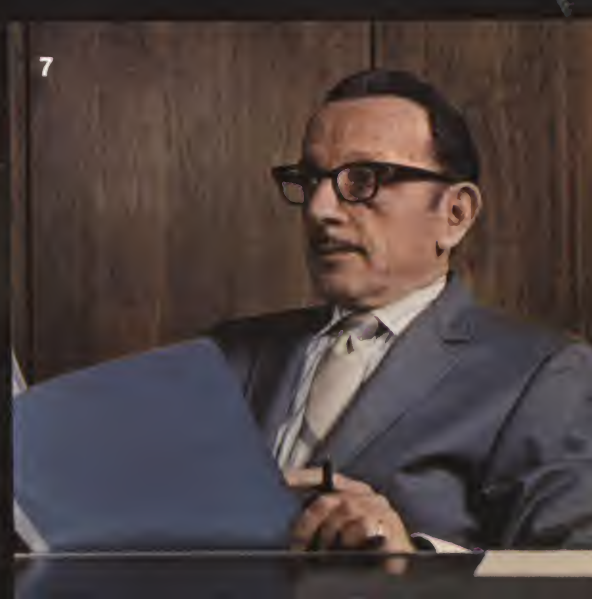


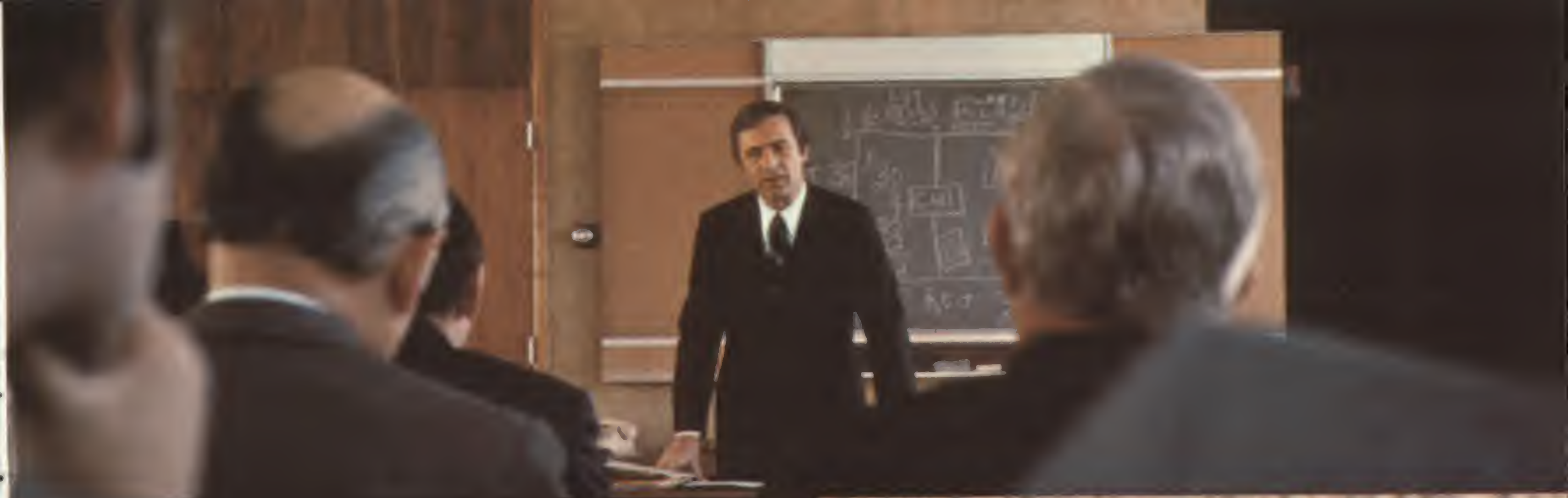
10 | management development

Zayre serves its customers through its greatest resource—its people—a strength that is constantly renewed and expanded in a continuing program of intensive training and re-training.

Recognizing the complexity and increasingly technical nature of modern mass merchandising, Zayre places great emphasis on management development. Over the past few years the number and diversity of our training programs has been substantially increased. They are keyed not only to the training of new people at the entry points but also upon communicating with, restimulating and broadening the horizons of line management.

Training ranges from the one-week program for new clericals to the intensive six-month program for developing store managers and assistant store managers. Seminars varying from merchandise planning to internal audit are conducted by each division—with the single most important being the week-long annual store managers' meeting at which the strategy and merchandising philosophy for the upcoming season are discussed.

Zayre recognizes that its continuing success requires the careful development of manpower. It seeks to make good people better through intensive training in the intricacies of retailing—where, more than ever before, professional knowledge is a prerequisite to excellence.




JOB
ORIENTATED
TRAINING
ZAYRE
AREA


12345
67890

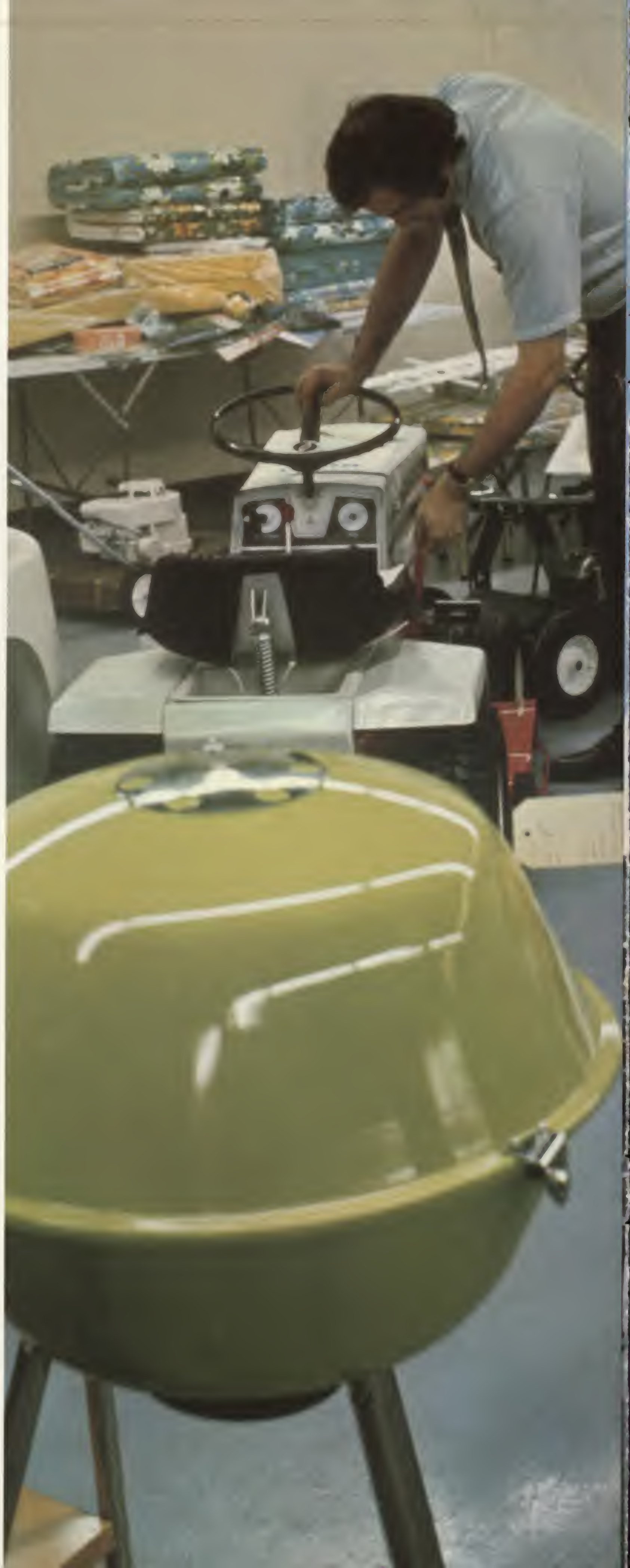
buying

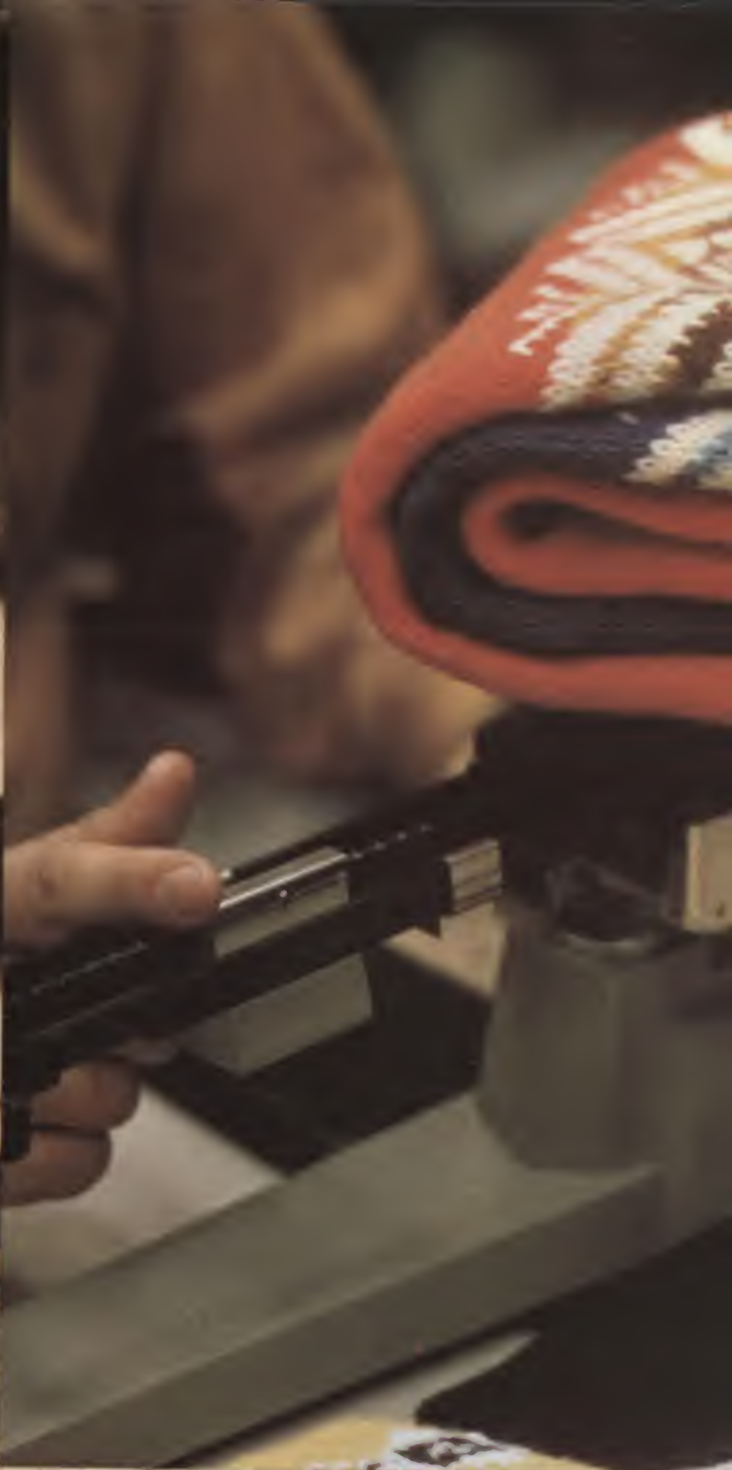
Zayre serves its customers through its wide-ranging team of expert buyers and their support staffs whose responsibility it is to select, style and merchandise the most wanted items.

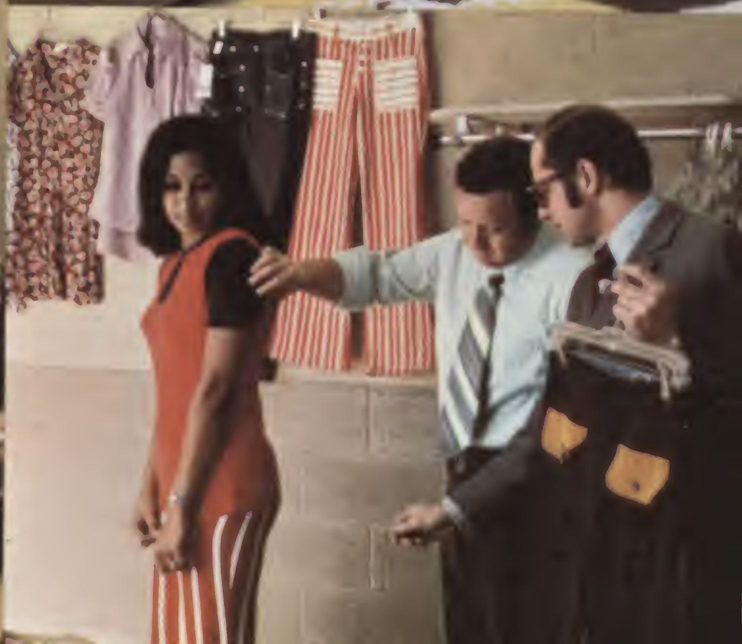
Hong Kong, Korea, Taiwan, Japan, Spain, Italy, Switzerland—many countries of the world ship their goods to Zayre, providing, along with our thousands of domestic vendors, a rich variety of reasonably priced, good quality, fast-selling goods. Drawing upon their experience and evolving sales trends, Zayre's staff of skilled buyers must seek to select today what customers will want tomorrow.

The buying process is a complex one involving diligent staff work to plan requirements and thorough market knowledge to select dependable vendors. Our requirements for individual items are so large that our buyers must increasingly involve themselves with the design and specifications of the product. Many of these items become a part of our growing private label program, thereby affording the consumer exceptional values—at reasonable prices.

The tens of thousands of "snorkel coats" that Zayre sold this past fall exemplifies the "art" of buying. Zayre was among the very first to identify and test this popular one-color, multi-zippered, parka type, heavy duty winter jacket. Working with selected vendors the product was designed to sell for $30 instead of $45. Most important of all was the foresight of the merchandising staff in commiting for a large quantity of this jacket well in advance of the principal selling season.





selling

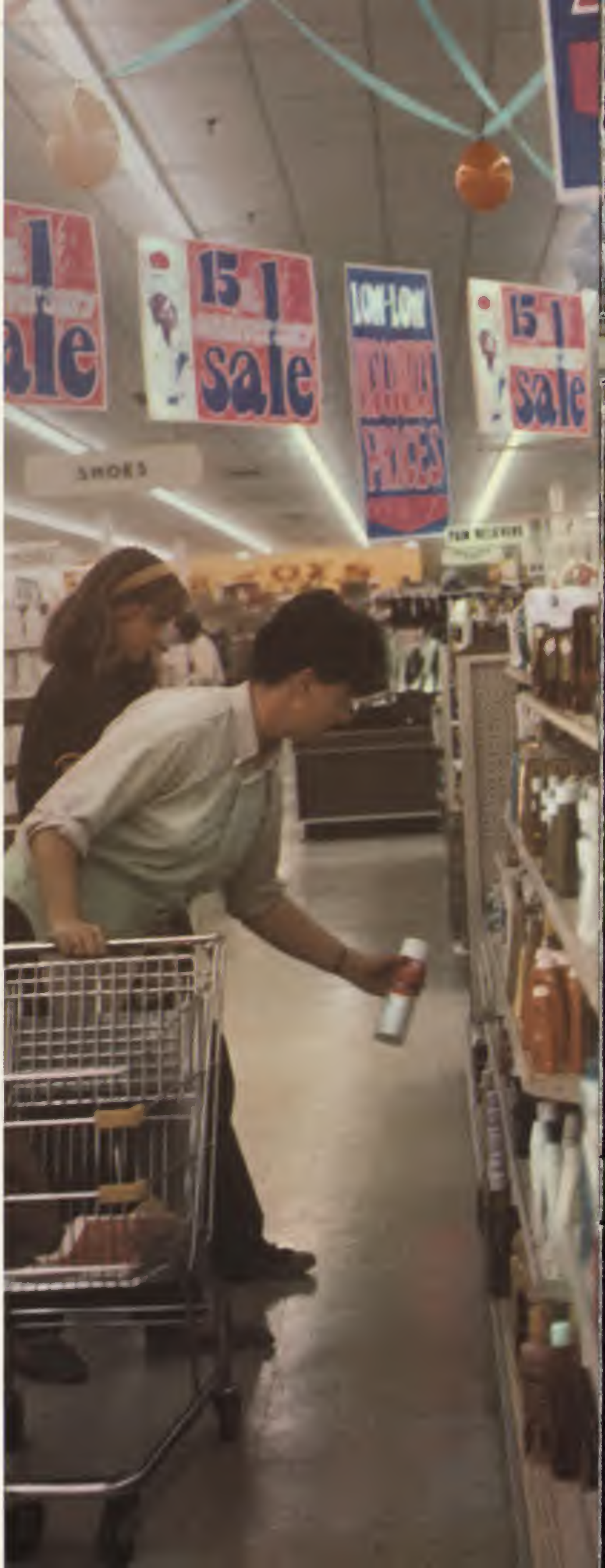
Zayre serves its customers through expert high-volume, high-velocity merchandising of the goods middle income shoppers want most, at prices they can afford.

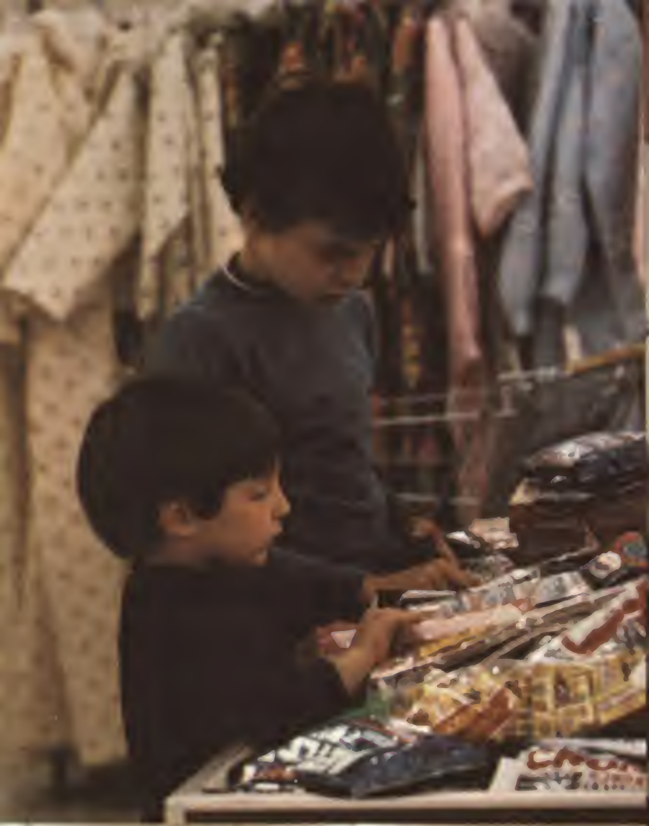
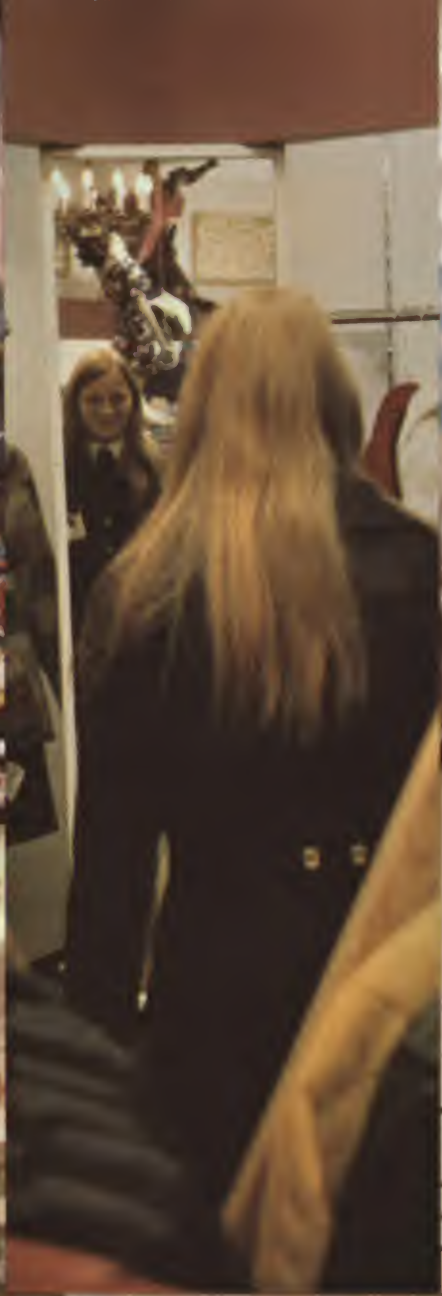
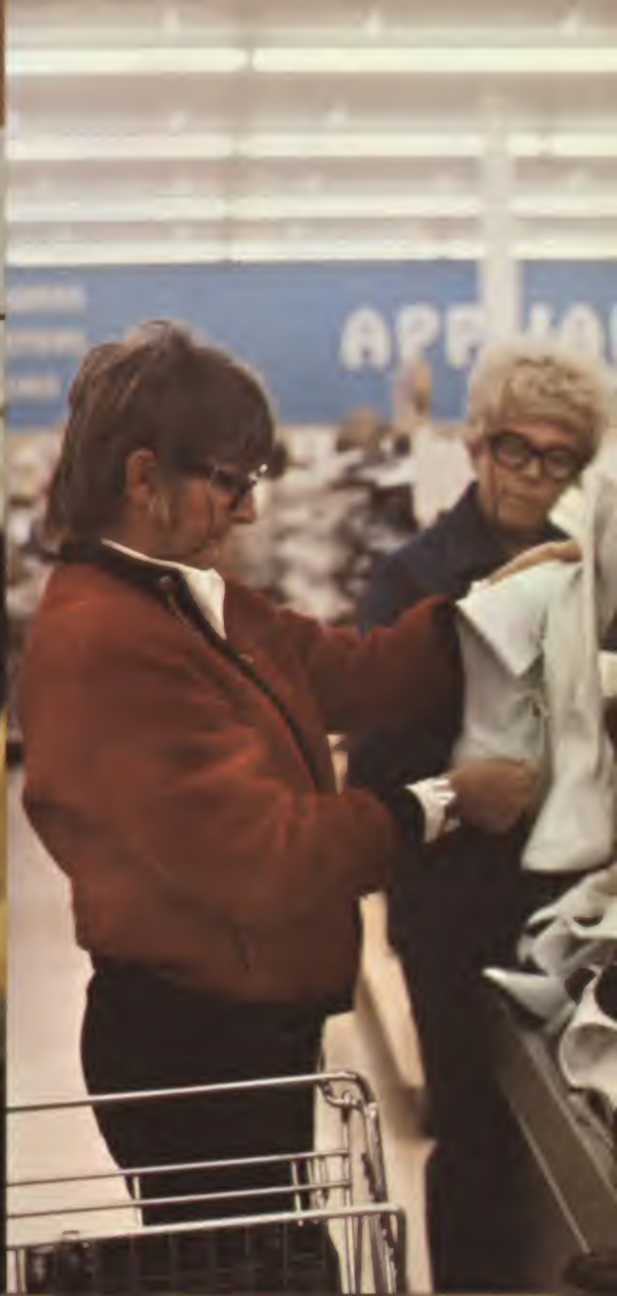
The sales effort in the 204 Zayre discount department stores is directed by the regional organization and store management. This team, aided by sharply focused promotional material and advertising programs, can move huge quantities in a very short period of time. For example, last year we sold 30 million pairs of hosiery, over 3,000,000 men's dress shirts and 200 railroad cars of household paper products. 1971 was the year for pants—Zayre responded by selling 6 million pairs of slacks and jeans.

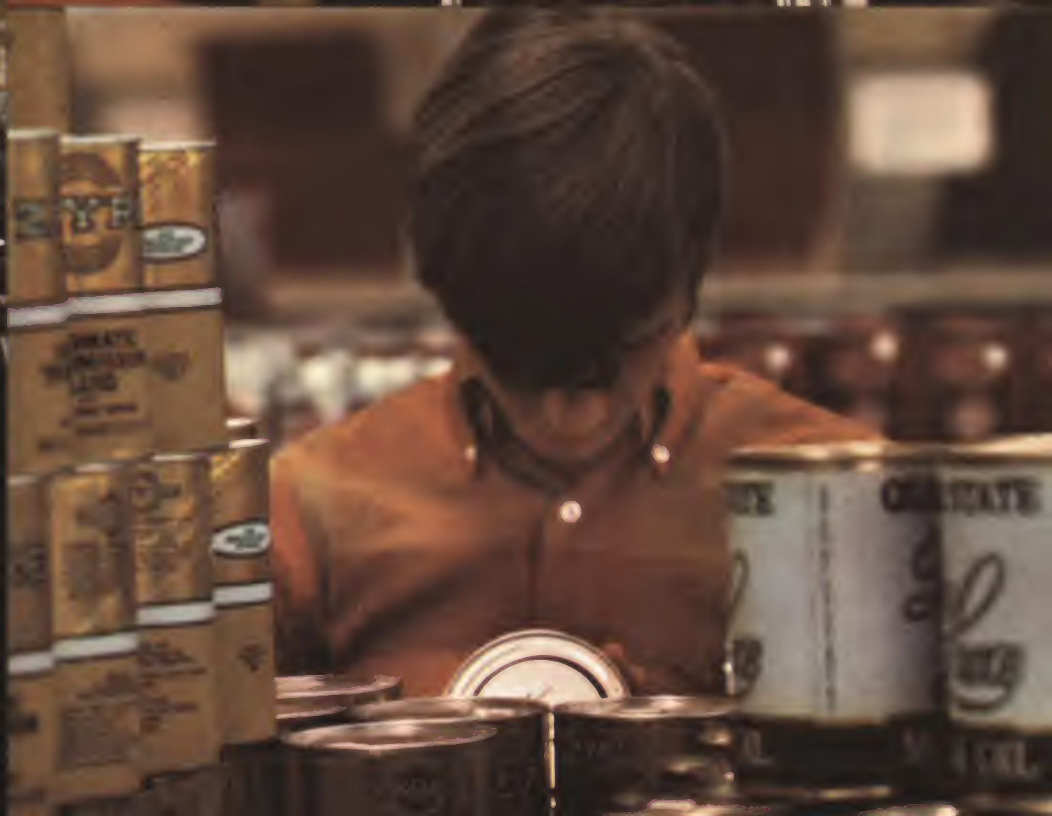
The Zayre merchandising program seeks to satisfy all of the home, clothing and recreational needs of the average middle income suburban family. In satisfying this objective, merchandising programs function at three levels—the selling of so-called basic merchandise, which includes readily identifiable branded items which the customer consumes in a regular pattern such as toothpaste or paint; men's, women's and children's fashion merchandise, and "special buys" specifically priced and stocked to stimulate store traffic.

The Zayre advertising program uses professionally designed circulars keyed to a sales event and inserted in newspapers as a primary promotional tool, supported by a consistent program of newspaper price and item advertisements. In-store promotional programs tie in to the major sales events via specially produced signs and banners in order to achieve strong sales thrust.

The Zayre shoe division, activated three years ago to assume the operation of the department from an independent lessee, continued to progress and at year end operated 132 departments, an increase of 68, with an additional 68 departments to be opened in 1972.





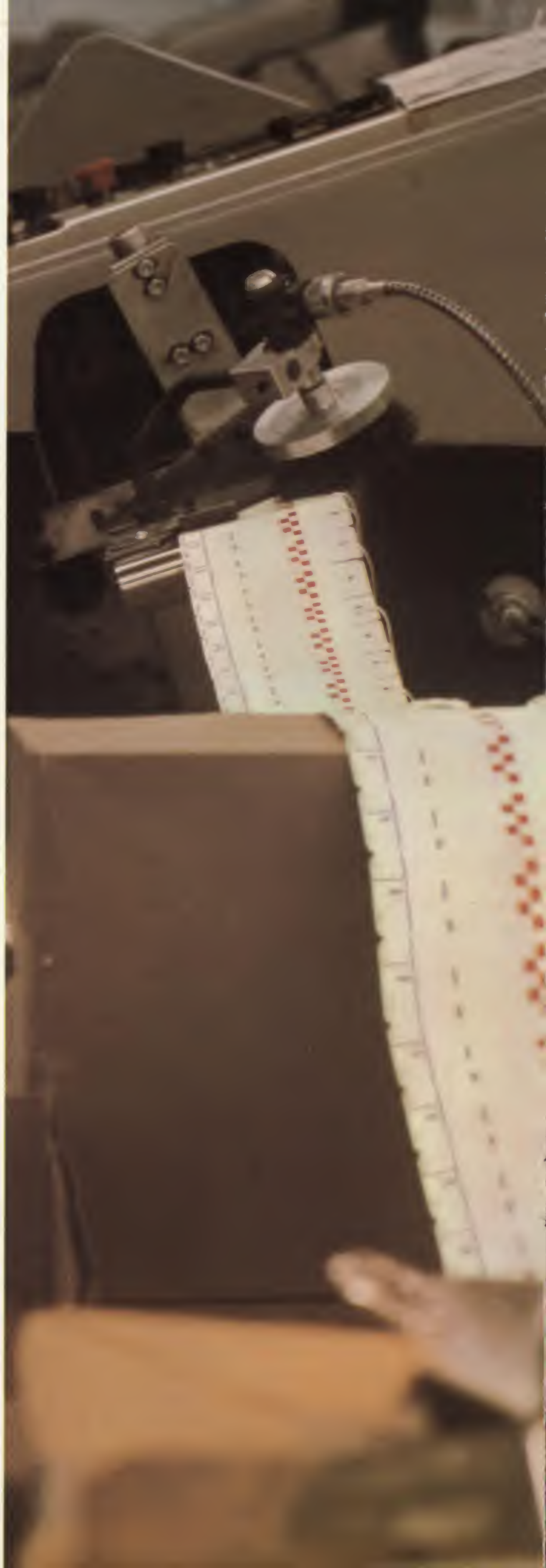
16 distribution

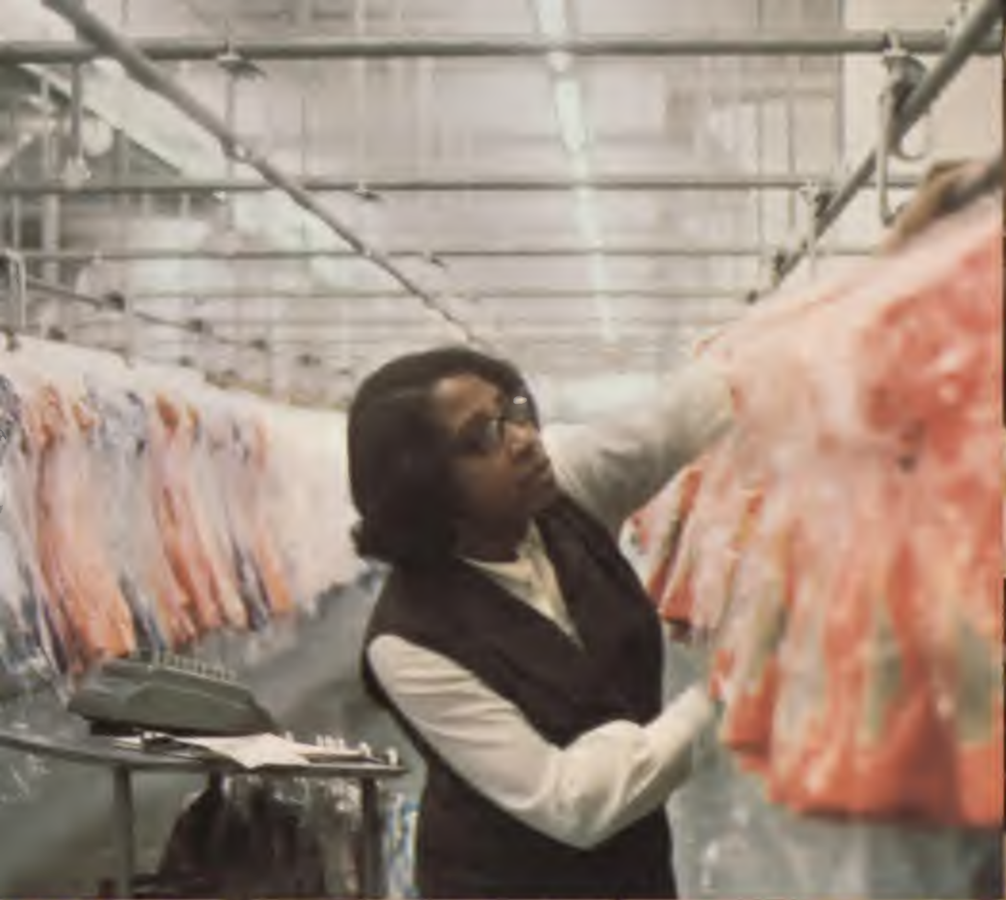
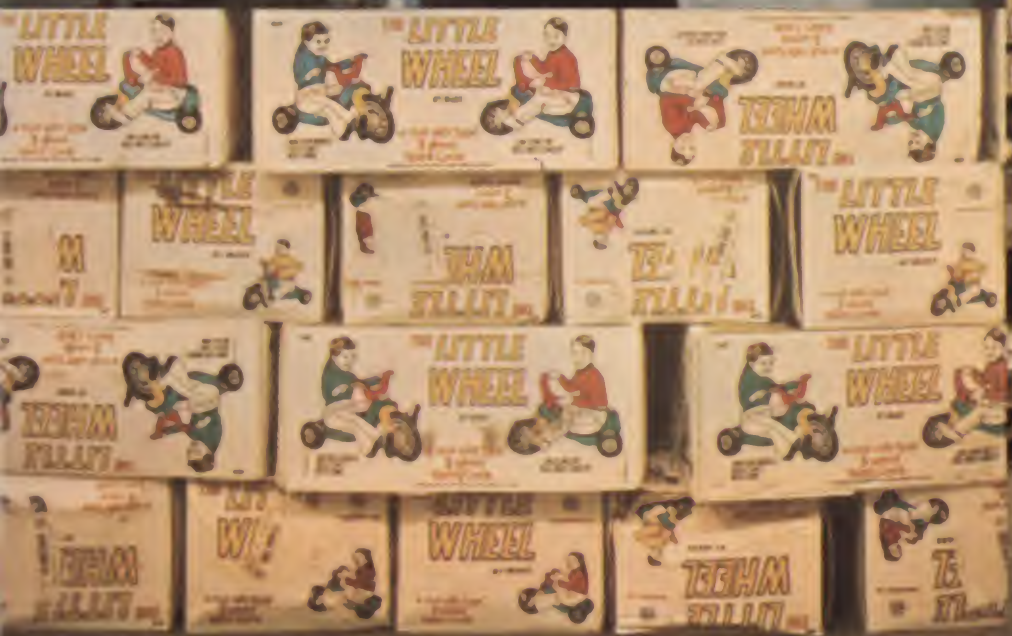
Zayre serves its customers through a rapid, efficient distribution system devoted to placing the right merchandise in the right place at the right time.

Zayre has established a network of distribution centers at strategic central locations in our major geographic marketing areas including Chicago, Atlanta, Miami, and the newest facility in Mansfield, Massachusetts. These centers use automated materials handling equipment and are designed to handle the replenishment of most case pack merchandise. In addition the New York City center handles the replenishment of all women's fashion apparel merchandise and the Framingham, Massachusetts center handles shoes and other specialized departments.

A computer based, tele-communication network links all distribution centers with the central computer in Framingham. Through this system merchandise can be dispatched from various facilities to each store while appropriate accounting and merchandise unit control records are instantaneously updated.

During the past year the Zayre distribution system has undergone an intensive cost-control program with a resultant improvement in both delivery time and operating costs. Warehouse costs have been brought under better control through a direct-costing program which enables the merchandising groups to use these facilities on a more profitable basis. Significant reductions were also achieved in freight charges through expansion of both private and contract carrier service, and the transit time of shipments was reduced in numerous instances.

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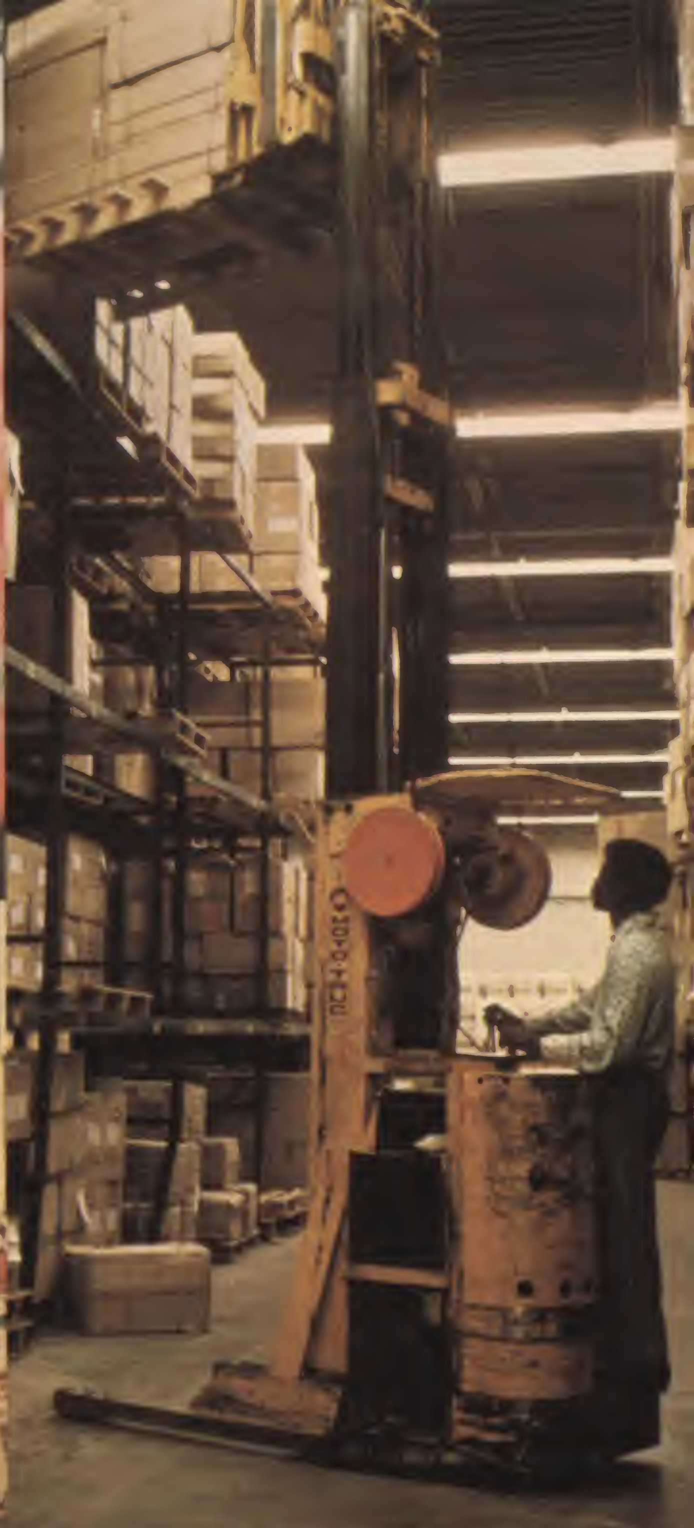
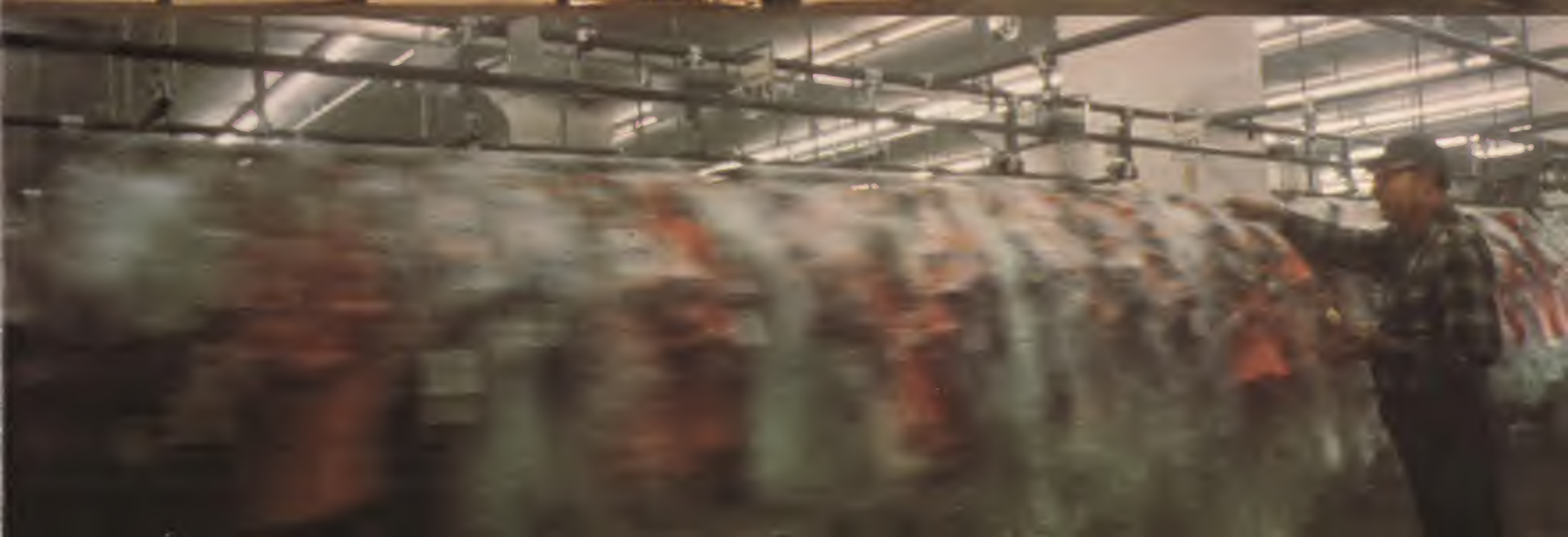
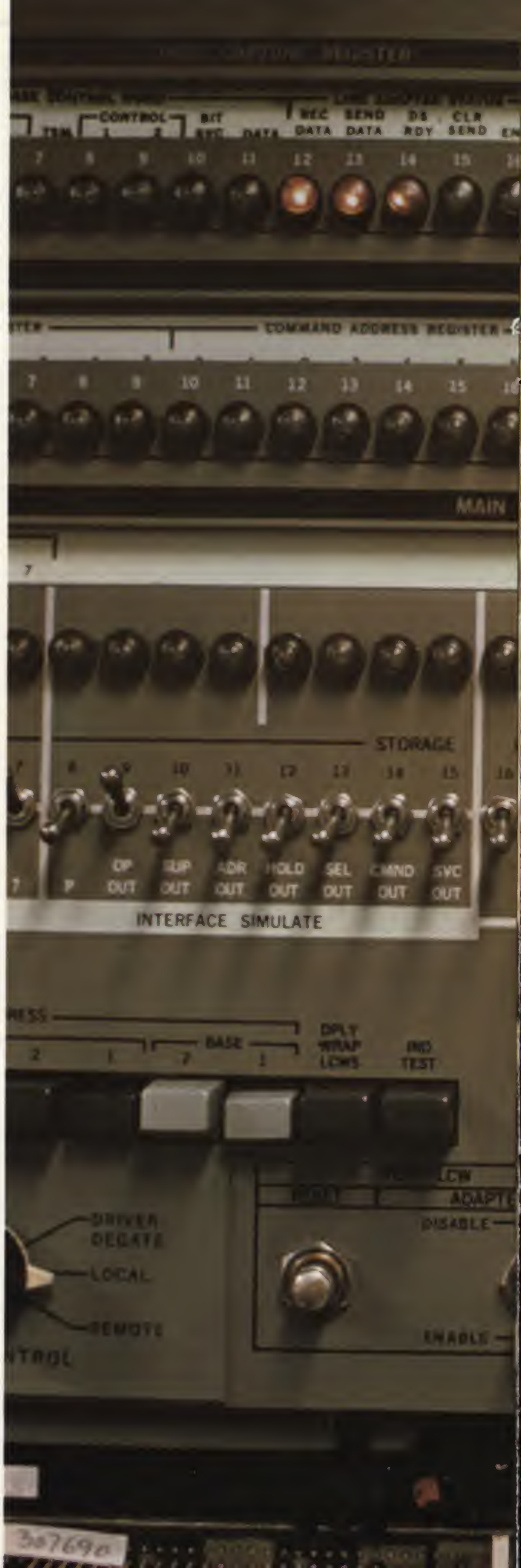



computerization



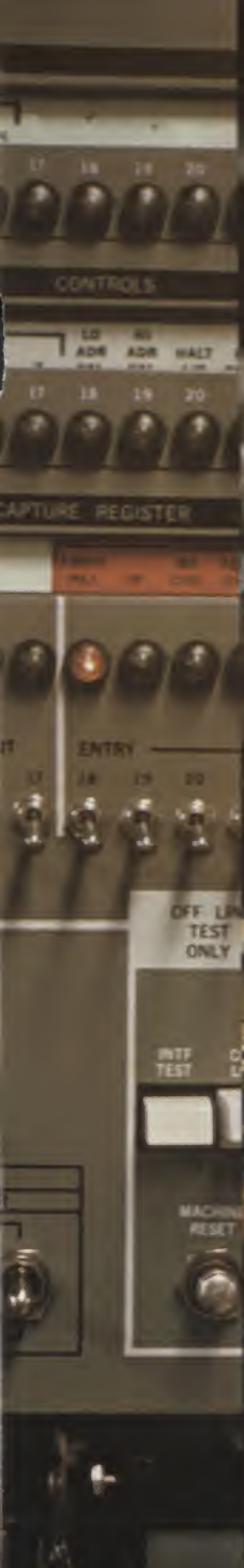
Zayre serves its customers through its advanced EDP system, which, in constantly monitoring the merchandise flow, makes for higher availability of even the fastest-selling items.

In February 1971, the company installed one of the first advanced IBM 370-155 computers at its Framingham headquarters, eliminating three other computers previously used for data processing operations. In taking full advantage of this improved hardware, the company's staff of highly qualified programming specialists was able, within a six-month period, to adapt most of our operations to the new computer.

We have thus achieved a lower cost per unit transaction as well as greater efficiencies in such areas as accounts payable, payroll, and warehouse operations. Computer-produced merchandise information reporting is now available to 80% of our departments at one of the lowest unit costs in the industry.

At the data center in Framingham headquarters, computer service is continually being extended to additional merchandising departments. Patterns of store operations are being explored and analyzed in order to establish more efficient operational procedures. Market research is another important area of application of the EDP system, enabling Zayre to learn more about its customers and their shopping habits and wants.

In every phase of operations, extended computerization frees Zayre personnel for greater creative activity and further improvements in serving our customers.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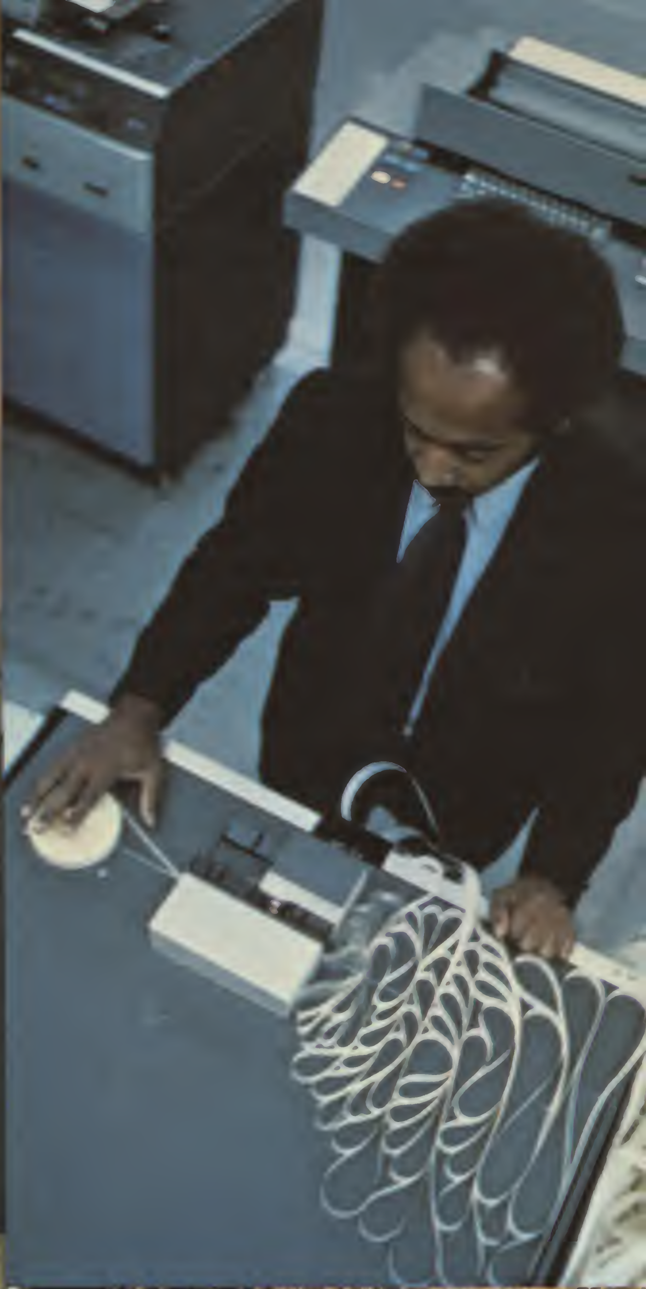
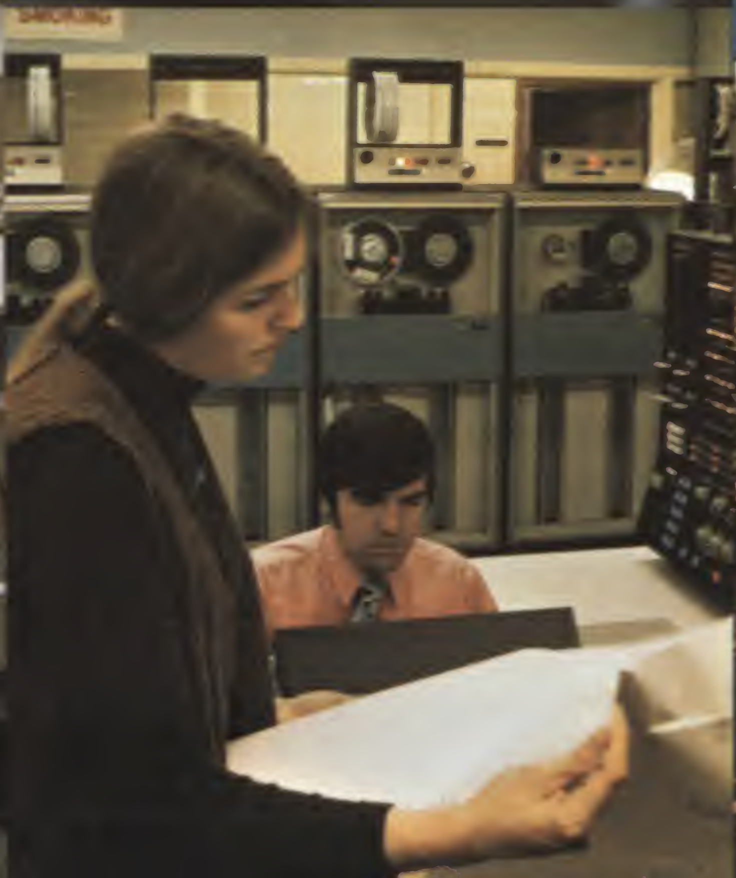




Zayre discount stores

Zayre serves its customers through stores that stress convenience, strong neighborhood orientation, self-service and easy access to a wide variety of quality merchandise.

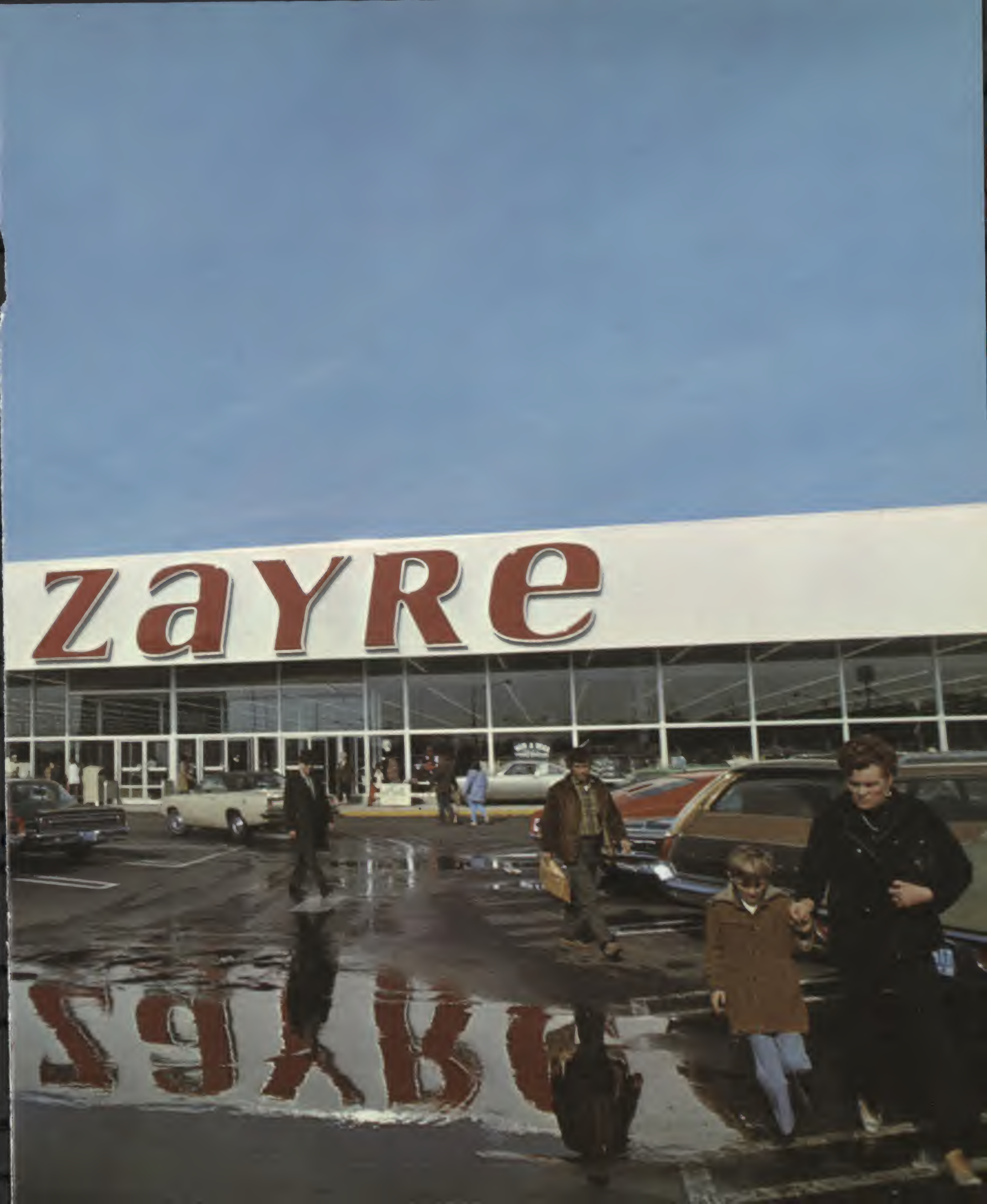
Always visible, accessible, easy-to-shop, and providing ample parking facilities, Zayre stores are designed to achieve optimum customer convenience; and they undergo continual improvement in this regard. A new store design, introduced in 1971, for example, features a wide expanse of glass in front for added visibility, and wider aisles and better lighting for greater shopper comfort and accessibility.

The emphasis in Zayre stores is on function rather than frills. Merchandise is easy to find, thanks to an orderly layout of clearly identified departments. These include fashions and apparel, shoes and accessories, health and beauty aids, major and small appliances, hardware, housewares, photographic equipment and supplies, sporting goods, domestics, fabrics, yarns, books, records, and stationery. The overall atmosphere of a Zayre store is informal and relaxed, yet the sense of excitement that, for shoppers, can only be generated by good buys, is always present.

The size and layout of a Zayre store is matched to the needs of the community; great care is taken in the location and construction of the various types of stores, as sites are chosen on the basis of scientific traffic and market analyses that seek to project potential volume even before the store is built.

Zayre also operates 68 fast-service gasoline stations primarily adjacent to Zayre stores. During 1971, 18 additional units were opened, and we plan to open 20 to 25 additional stations in 1972.

The 25 new Zayre stores opened during the year added a total of 2,052,000 square feet of additional floor space. At fiscal year end there was a total of 204 discount department stores in operation, occupying a gross area of approximately 15,652,000 square feet.


zayre

specialty store chains

Zayre serves its customers through the development of specialty stores, which provide an unusually wide assortment within a given category of merchandise as well as specialized store formats.

In building its specialty chains, Zayre draws on its long experience with specialty shops and chains as well as its capabilities as a mass merchandiser in supplying financial resources, buying, merchandising, and real estate support. Zayre thus offers consumers the combination of services sought by many modern shoppers—individualized service, an excellent selection of merchandise within a given line, and economies of scale.

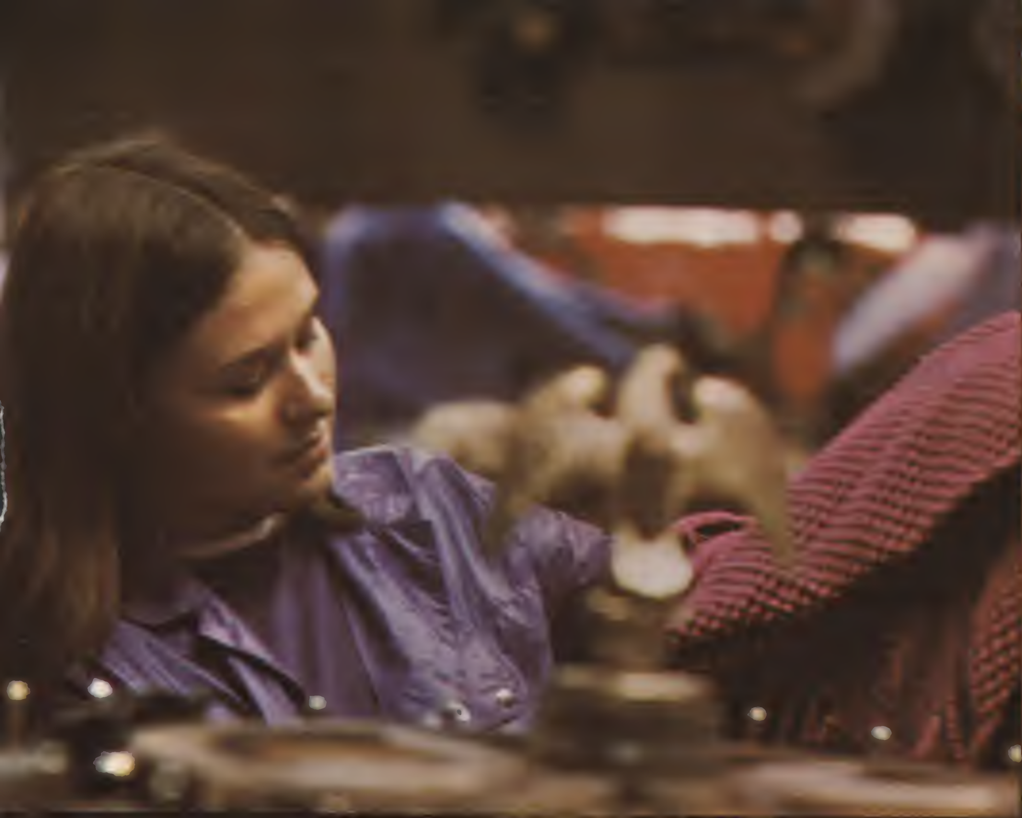
Zayre specialty operations include:

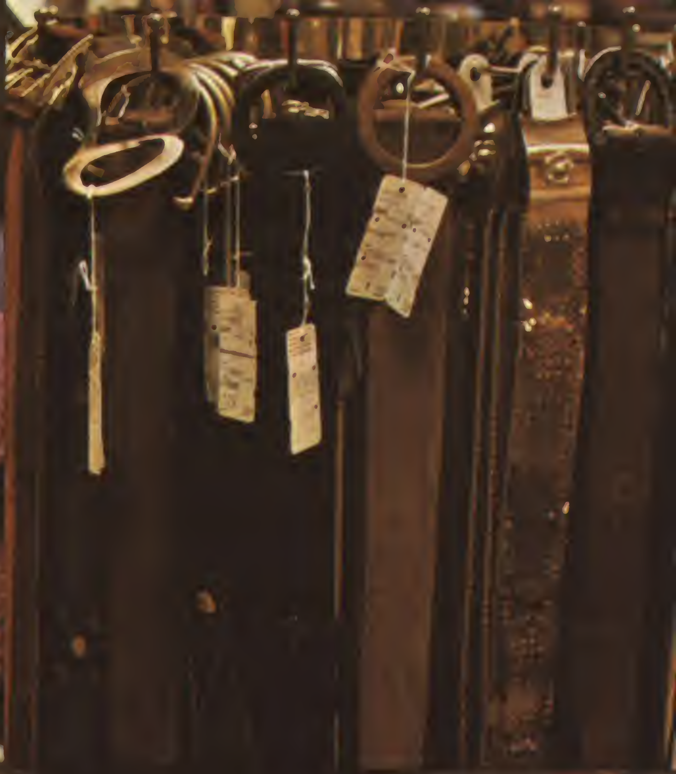
Hit or Miss, a high-turnover, low-overhead ladies' apparel specialty chain of 23 stores, currently concentrated in New England. During 1971, Zayre opened 6 Hit or Miss shops, and plans to open 10 to 12 in 1972.

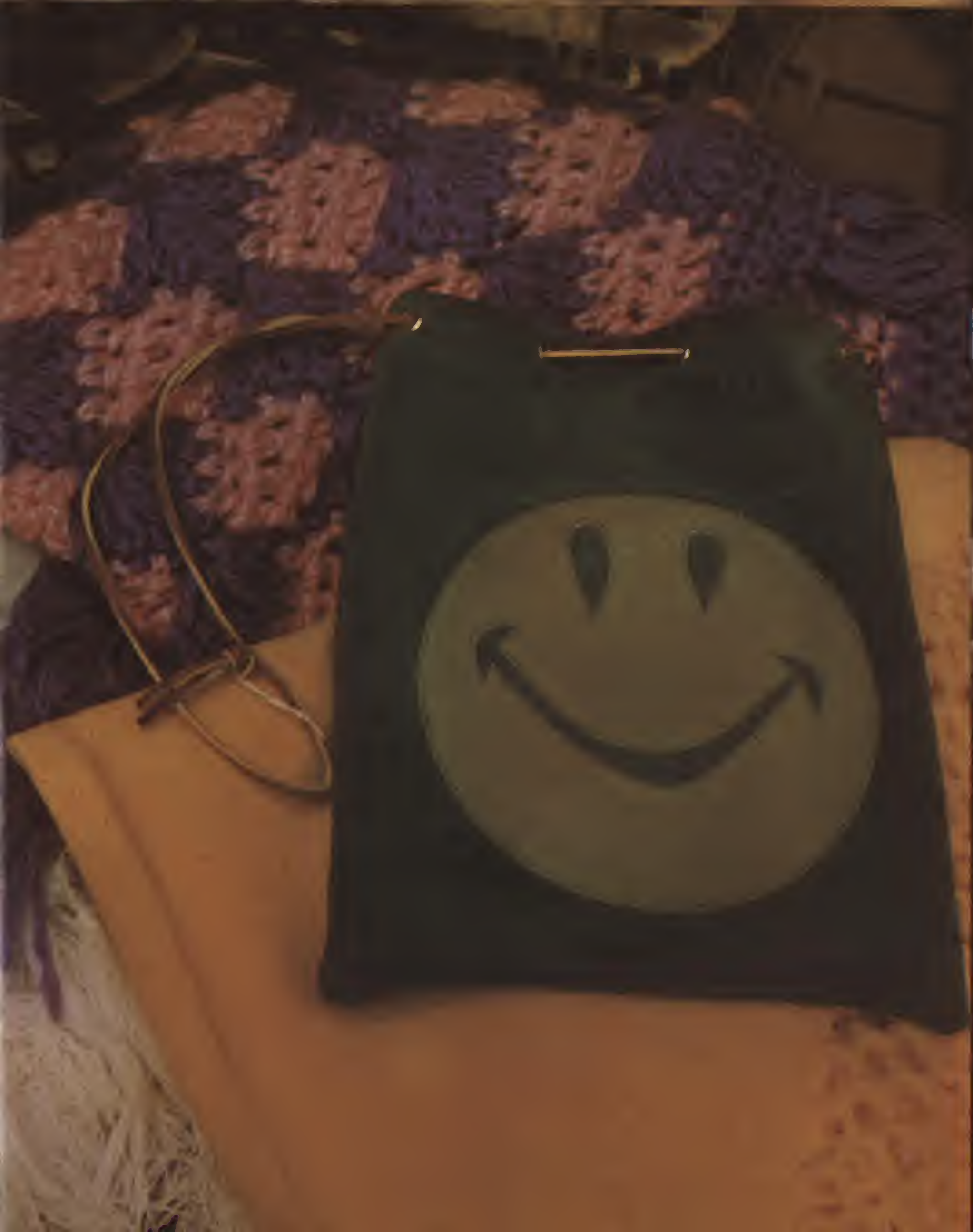
Bell/Nugent Shops, Zayre's original business; a chain of women's apparel specialty shops, featuring modern, sophisticated decor and appealing particularly to the sportswear minded, fashion-conscious junior. Bell/Nugent, which now operates 57 stores, opened a net of 6 stores in 1971 and plans to open 4 to 7 more in 1972.

Beaconway Fabrics offer a wide variety of yarns and fabrics for the growing home sewing market. Beaconway opened a net of 11 stores in 1971 for a total of 29, with 12 to 15 more scheduled to be opened in 1972.

Spree! toy and leisure-time stores, a new venture which the Company is currently evaluating. Spree! operates 11 stores which present a broad range of toys, games and wheeled goods; infants' furniture and outdoor leisure equipment.







consolidated balance sheets

Zayre Corp. and Operating Subsidiaries

	January 29, 1972	January 30, 1971
ASSETS		
Current assets:		
Cash	**$ 20,226,914**	$ 17,298,976
Marketable securities, at cost approximating market	**5,250,000**	2,000,000
Accounts receivable	**5,607,953**	8,258,847
Amounts due from vendors	**4,425,544**	5,107,638
Merchandise inventories, at the lower of cost (retail method) or market	**159,281,152**	119,445,509
Due from leasing subsidiaries	**5,446,607**	33,768
Prepaid expenses	**3,530,991**	3,371,620
Total current assets	**203,769,161**	155,516,358
Equity in and notes receivable from wholly-owned subsidiaries and affiliate (note A):		
Leasing subsidiaries (note L)	**5,078,377**	4,065,289
Credit subsidiary (note M)	**2,235,044**	
Fifty-percent owned real estate development company	**1,274,700**	1,272,000
	8,588,121	5,337,289
Equipment, leasehold costs and improvements, at cost	**12,173,429**	12,207,491
Less accumulated depreciation and amortization (note J)	**3,533,874**	3,609,685
	8,639,555	8,597,806
Unamortized debt discount and expense (note I)	**4,541,819**	492,844
Unamortized pre-opening expenses and other assets	**3,368,690**	2,918,261
Goodwill (note A)	**3,728,819**	3,728,819
	$232,636,165	$176,591,377
LIABILITIES		
Current liabilities:		
Current instalments of general corporate notes	**$ 1,579,640**	$ 6,859,282
Accounts payable	**66,618,266**	42,491,409
Accrued expenses and other current liabilities	**18,903,634**	13,036,109
Federal income taxes	**4,733,560**	1,931,561
Total current liabilities	**91,835,100**	64,318,361
General corporate notes, exclusive of current instalments (note B)	**7,132,881**	18,545,160
Sinking fund debentures (note B)	**25,000,000**	
Convertible subordinated debentures (note B)	**20,000,000**	20,000,000
Deferred federal income taxes (note C)	**434,539**	190,000
Commitments (notes A and D)		
SHAREHOLDERS' EQUITY		
Preferred stock, par value $1, authorized 1,000,000 shares, issued and outstanding 57,659 shares Series B cumulative convertible preferred stock (note G)	**57,659**	57,659
Common stock, par value $1, authorized 15,000,000 shares, issued and outstanding 4,821,273 and 4,650,393 shares (notes B, G, H and I)	**4,821,273**	4,650,393
Additional paid-in capital	**14,881,039**	10,222,993
Retained earnings (notes B and G)	**68,473,674**	58,606,811
	88,233,645	73,537,856
	$232,636,165	$176,591,377

The accompanying notes are an integral part of the financial statements.

consolidated balance sheets

Zayre Corp. and Consolidated Subsidiaries

	January 29, 1972	January 30, 1971
ASSETS		
Current assets:		
Cash	$ 20,914,478	$ 18,041,806
Marketable securities, at cost approximating market	8,449,909	5,348,318
Accounts receivable	6,090,324	8,482,024
Amounts due from vendors	4,425,544	5,107,638
Merchandise inventories, at the lower of cost (retail method) or market	159,281,152	119,445,509
Prepaid expenses	3,530,991	3,371,620
Total current assets	202,692,398	159,796,915
Equity in and notes receivable from wholly-owned subsidiary and affiliate (note A):		
Credit subsidiary (note M)	2,235,044	
Fifty-percent owned real estate development company	1,274,700	1,272,000
	3,509,744	1,272,000
Property, at cost:		
Land	9,253,974	8,036,320
Buildings	36,962,872	29,277,060
Leasehold costs and improvements	16,266,713	14,127,549
Furniture, fixtures and equipment	69,789,760	60,585,938
	132,273,319	112,026,867
Less accumulated depreciation and amortization (note J)	33,350,750	28,210,500
	98,922,569	83,816,367
Unamortized debt discount and expense (note I)	4,826,927	779,306
Unamortized pre-opening expenses and other assets	3,533,012	3,122,430
Goodwill (note A)	3,728,819	3,728,819
	$317,213,469	$252,515,837
LIABILITIES		
Current liabilities:		
Current instalments of long-term debt	$ 8,993,410	$ 12,169,170
Accounts payable	69,645,083	44,797,818
Accrued expenses and other current liabilities	19,231,902	13,604,283
Federal income taxes	4,733,560	1,931,561
Total current liabilities	102,603,955	72,502,832
Long-term debt, exclusive of current instalments (note B):		
General promissory notes	7,132,881	18,545,160
Equipment promissory notes	37,230,255	31,803,287
Real estate mortgages	34,073,841	34,487,702
Sinking fund debentures	25,000,000	
Convertible subordinated debentures	20,000,000	20,000,000
Deferred federal income taxes (note C)	2,938,892	1,639,000
Commitments (notes A and D)		
SHAREHOLDERS' EQUITY		
Preferred stock, par value $1, authorized 1,000,000 shares, issued and outstanding 57,659 shares Series B cumulative convertible preferred stock (note G)	57,659	57,659
Common stock, par value $1, authorized 15,000,000 shares, issued and outstanding 4,821,273 and 4,650,393 shares (notes B, G, H and I)	4,821,273	4,650,393
Additional paid-in capital	14,881,039	10,222,993
Retained earnings (notes B and G)	68,473,674	58,606,811
	88,233,645	73,537,856
	$317,213,469	$252,515,837

The accompanying notes are an integral part of the financial statements.

consolidated statements of income and retained earnings

Zayre Corp. and Consolidated Subsidiaries

	Fiscal Year Ended	
	January 29, 1972	January 30, 1971
Net sales, excluding sales of leased departments	**$797,550,378**	$683,131,062
Rentals from leased departments, net of estimated allocated store expenses	**1,549,592**	1,521,810
Other income	**2,001,482**	1,684,569
	801,101,452	686,337,441
Cost of sales, including buying and occupancy costs	**625,115,153**	535,871,709
Selling, general and administrative expenses	**138,852,865**	117,829,446
Depreciation and amortization (note J)	**10,943,245**	9,570,426
Interest expense	**8,473,413**	8,085,069
	783,384,676	671,356,650
Income before provision for federal income taxes	**17,716,776**	14,980,791
Provision for federal income taxes (note C)	**7,700,000**	7,318,000
Net income	**10,016,776**	7,662,791
Retained earnings at beginning of year	**58,606,811**	51,065,871
Dividends on Series B preferred stock	**(149,913)**	(121,851)
Retained earnings at end of year	**$ 68,473,674**	$ 58,606,811
Net income per common share (note K):		
Primary	**$2.06**	$1.62
Fully diluted	**$1.95**	$1.54

consolidated statements of additional paid-in capital

	Fiscal Year Ended	
	January 29, 1972	January 30, 1971
Balance at beginning of year	**$ 10,222,993**	$ 9,776,834
Excess over par value of common stock issued upon:		
Exercise of options (note H)	**997,871**	446,159
Exercise of Class A and Class B warrants (note I)	**530,175**	
Warrants sold with sinking fund debentures (note I)	**3,450,000**	
Adjustment of a portion of tax benefits previously credited hereto	**(320,000)**	
	$ 14,881,039	$ 10,222,993

The accompanying notes are an integral part of the financial statements.

consolidated statements of changes in financial position

Zayre Corp. and Consolidated Subsidiaries

	Fiscal Year Ended **January 29, 1972**	January 30, 1971
Source of Working Capital		
Net income	**$10,016,776**	$ 7,662,791
Charges to income not requiring working capital:		
Depreciation and amortization	**10,943,245**	9,570,426
Deferred federal income taxes, in fiscal 1972, net of $1,100,000 applicable to instalment receivables	**1,299,892**	103,000
Funds provided from operations	**22,259,913**	17,336,217
Long-term debt:		
Sinking fund debentures	**25,000,000**	
Other financings	**15,418,756**	24,197,619
Issued in acquisitions		7,660,000
Property disposals	**509,034**	1,467,279
Common stock issued upon exercise of options and warrants	**1,698,927**	480,698
Warrants sold with sinking fund debentures (note I)	**3,450,000**	
	$68,336,630	$51,141,813
Application of Working Capital		
Current instalments of long-term debt	**$ 8,993,410**	$12,169,170
Prepayment of long-term debt	**12,824,518**	
Property additions:		
Real estate	**8,994,700**	7,346,297
Fixtures, equipment, leasehold costs and improvements	**14,954,098**	17,823,885
Investment in unconsolidated credit subsidiary	**2,235,044**	
Debt discount and expense (note I)	**4,208,763**	80,093
Goodwill		3,728,819
Pre-opening costs and other assets	**2,861,824**	2,927,338
Adjustment of a portion of tax benefits previously credited to additional paid-in capital	**320,000**	
Dividends on Series B preferred stock	**149,913**	121,851
	55,542,270	44,197,453
Increase in working capital	**12,794,360**	6,944,360
	$68,336,630	$51,141,813
Details of Working Capital Increase:		
Increase (decrease) in current assets:		
Cash	**$ 2,872,672**	$ 4,115,114
Marketable securities	**3,101,591**	(6,797,105)
Merchandise inventories	**39,835,643**	19,038,054
Receivables	**(3,073,794)**	1,627,616
Other current assets	**159,371**	814,380
	42,895,483	18,798,059
Increase (decrease) in current liabilities:		
Current instalments of long-term debt	**(3,175,760)**	6,587,693
Accounts payable	**24,847,265**	925,884
Accrued expenses	**5,627,619**	2,990,449
Federal income taxes	**2,801,999**	1,349,673
	30,101,123	11,853,699
Working capital increase	**$12,794,360**	$ 6,944,360

The accompanying notes are an integral part of the financial statements.

notes to consolidated financial statements

Zayre Corp. and Consolidated Subsidiaries

A—Basis of Presentation. The financial statements of Zayre Corp. and Consolidated Subsidiaries include the financial statements of all the Company's wholly-owned subsidiaries, other than Zayre Credit Corporation which was formed in January, 1972. (See note M for balance sheet.) The consolidated balance sheets of Zayre Corp. and Operating Subsidiaries also exclude the assets and liabilities of the leasing subsidiaries, which are presented in note L.

Goodwill represents the excess of purchase price incurred over the costs assigned to identified assets of two companies acquired in August and September, 1970 and is not being amortized. A maximum of $1,750,000 of notes is contingently issuable if one of these companies achieves the stipulated amount of average earnings through January, 1973.

B—Long-Term Debt. At January 29, 1972, long-term debt, exclusive of current instalments, consisted of the following:

General corporate notes:	
Promissory notes, interest at 5.8% to 7.5%, maturing May 10, 1973 to January 31, 1984	$ 2,866,215
Subordinated notes, interest at 5.5% to 8% and at prime, maturing August 1, 1973 to January 15, 1979	4,266,666
	7,132,881
Equipment promissory notes, interest principally at ¼% above prime, maturing in fiscal years 1974 to 1979	37,230,255
Real estate mortgages, interest at 4½% to 10¼%, maturing May 10, 1973 to January 1, 2001	34,073,841
Sinking fund debentures, 8%, maturing August 15, 1977 to August 15, 1996	25,000,000
Convertible subordinated debentures, 5¾%, maturing December 15, 1979 to December 15, 1994	20,000,000
	$123,436,977

The subordinated notes are subordinated to the promissory notes and the sinking fund debentures. The 5¾% convertible subordinated debentures are subordinated to all general corporate notes and the sinking fund debentures and are convertible into common stock at $40 per share, for which the Company has reserved 500,000 shares of its common stock. Under provisions of the agreements governing long-term debt, $15,000,000 of retained earnings was available for dividends at January 29,1972. While the parent company is not directly obligated with respect to the equipment promissory notes or real estate mortgages, it has guaranteed the leases which have been assigned as collateral for such debt.

C—Federal Income Taxes. Deferred federal income taxes arise from income tax and financial reporting differences principally with respect to customer instalment receivables, depreciation expense and pre-opening costs. Investment credit used to reduce the provision for federal income taxes amounted to $720,000 in fiscal 1972 and was immaterial in amount in fiscal 1971.

D—Commitments. The companies are committed to pay minimum annual rentals under long-term net leases expiring: between fiscal 1976 and 1980—$1,783,000; between fiscal 1981 and 1985—$5,228,000; between fiscal 1986 and 1990—$4,806,000; between fiscal 1991 and 1995—$5,514,000; and between fiscal 1996 and 2005—$6,765,000. Additional minimum annual rentals of approximately $2,925,000 will be payable under long-term leases for stores to be opened during fiscal 1973.

E—Litigation. The Company has been named as defendant in a purported class action claiming substantial damages under the Federal Truth in Lending Act. The Company has also been named as a defendant, together with 59 other defendants, in a purported class action claiming substantial damages for a violation of Ohio law. Based on the facts presently known to them, the Company and its counsel are of the opinion that no material damages will be sustained by the Company.

F—Retirement Plan. The Company has a noncontributory funded Retirement Plan covering substantially all full-time employees who have completed three years of service. Pension expense (including amortization of prior service costs over thirty years) charged to income amounted to $851,000 in fiscal 1972 (after reflecting the actuarial cost of increased benefits resulting from a plan amendment) and $593,000 in fiscal 1971.

G—Preferred Stock. The Series B cumulative convertible preferred stock is entitled to a liquidation preference of $65 per share, or $3,747,835 in the aggregate and is redeemable, subsequent to January 30, 1974, at the option of the Company at the same price. Each share is convertible into 1.5 shares of common stock and 86,488 shares of common stock have been reserved for the conversion privilege.

H—Stock Options and Stock Purchase Plan. Under its Stock Option Plans, the Company has granted certain officers and key employees options for the purchase of common stock within five years from the grant date at option prices of 100% of market price on the grant date. Generally, all options are exercisable in four equal cumulative annual instalments commencing one year after the grant date. Information concerning activity during fiscal 1972 follows:

	Option Prices	Number of Common Shares Reserved for Options Granted	Future Options
Outstanding at 1/30/71	\$20.34 — \$38.67	205,143	4,320
Additional authorization under 1967 Plan ...			200,000
Options granted	\$33.75	50,500	(50,500)
Options exercised	\$20.34 — \$38.67	(41,985)	
Cancellations	\$23.42 — \$38.67	(19,179)	19,179
Outstanding at 1/29/72	\$23.42 — \$38.67	194,479	172,999

Under its Executive Incentive Stock Purchase Plan, 35,300 shares of common stock were reserved at January 29, 1972 for sale at a price (not less than par value) determined by the Company, subject to repurchase options and restrictions on sales which lapse equally over five or ten years. In fiscal 1972, 2,850 shares were sold for \$1.00 per share under the Plan.

I—Stock Purchase Warrants. The Company's 8% sinking fund debentures and warrants for the purchase of 300,000 shares of common stock were sold in units during August, 1971. The Company has reserved 300,000 shares of common stock for the warrants which are exercisable at \$40 per share and expire on August 31, 1976. The portion of the proceeds assigned to the warrants (\$3,450,000) has been credited to additional paid-in capital and the resulting bond discount, together with related issue costs, is being amortized over the life of the debentures on the bonds outstanding method.

The Company issued 126,045 shares of common stock upon exercise of all of the previously outstanding Class A and Class B warrants.

J—Depreciation and Amortization. For financial reporting purposes, the Company provides for depreciation and amortization by the use of the straight line method as follows: buildings—33 years; leasehold costs and improvements—shorter of the lease term or estimated useful life; furniture, fixtures and equipment—5 to 10 years; and pre-opening costs—12 months.

K—Net Income per Common Share. Primary net income per common share is based upon the average number of common and common equivalent shares outstanding in each year, after provision for the full annual dividend requirements on the preferred stock deemed to be outstanding during each year. Fully diluted net income per common share assumes full conversion of all convertible securities and the exercise of all stock options and warrants during the periods in which they were outstanding and were dilutive.

L—Combined Balance Sheets of the Leasing Subsidiaries

	January 29, 1972	January 30, 1971
Assets		
Property, at cost:		
Land and buildings	\$ 40,855,776	\$ 36,617,024
Construction in progress	5,361,070	696,356
Furniture, fixtures and leasehold improvements	73,883,044	62,505,996
	120,099,890	99,819,376
Less accumulated depreciation and amortization	29,816,876	24,600,815
	90,283,014	75,218,561
Cash and marketable securities	3,887,473	4,091,148
Accounts receivable and other assets	931,801	713,808
	\$ 95,102,288	\$ 80,023,517
Liabilities		
Long-term debt, including current instalments of \$7,413,770 in 1972 and \$5,309,888 in 1971 (note B)	\$ 78,717,866	\$ 71,600,877
Accounts payable and accrued expenses	3,355,085	2,874,583
Due to parent and operating subsidiaries	5,446,607	33,768
Deferred federal income taxes	2,504,353	1,449,000
	90,023,911	75,958,228
Equity	5,078,377	4,065,289
	\$ 95,102,288	\$ 80,023,517

Fixed annual rentals are receivable, under long-term leases, from the parent company and its operating subsidiaries for the use of real estate, furniture, fixtures and leasehold improvements owned by the leasing subsidiaries.

M—Balance Sheet of Zayre Credit Corporation as of January 29, 1972

Assets	
Customer instalment receivables purchased from parent company and operating subsidiaries, net of \$768,052 withheld pending collection	\$8,837,777
Cash (\$124,228) and other assets	197,267
	\$9,035,044
Liabilities	
Short-term notes payable to banks	\$6,800,000
Due to parent company	235,044
	7,035,044
Investment by Parent Company	
Subordinated demand notes	1,500,000
Common stock	500,000
	2,000,000
	\$9,035,044

auditors' report

To the Board of Directors of Zayre Corp.:

We have examined the consolidated balance sheet of Zayre Corp. and Consolidated Subsidiaries as of January 29, 1972, the related consolidated statements of income and retained earnings, additional paid-in capital, and changes in financial position for the fiscal year then ended, and the consolidated balance sheet of Zayre Corp. and Operating Subsidiaries as of January 29, 1972. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the financial statements for the fiscal year ended January 30, 1971.

In our opinion, the aforementioned financial statements present fairly the financial position of Zayre Corp. and Consolidated Subsidiaries and Zayre Corp. and Operating Subsidiaries at January 29, 1972 and January 30, 1971 and the results of operations and changes in financial position of Zayre Corp. and Consolidated Subsidiaries for the fiscal years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Lybrand, Ross Bros + Montgomery

Boston, Massachusetts
April 3, 1972

ten-year summary

Fiscal Year Ended Last Saturday in January	**1972**	1971
Operating Data:		
Net sales, excluding sales of leased departments	**$797,550,378**	$683,131,062
Income before federal income taxes	**$ 17,716,776**	$ 14,980,791
Net income	**$ 10,016,776**	$ 7,662,791
Average number of common shares outstanding	**4,779,611**	4,637,579
Net income per common share:		
Primary (note K)	**$2.06**	$1.62
Fully diluted (note K)	**$1.95**	$1.54
Stores in Operation:		
Self-service Department Stores	**204**	179
Apparel Specialty Shops	**57**	51
Fabric Shops	**29**	18
Gasoline Stations	**68**	50
Discount Food Supermarkets	**9**	8
Discount Toy Stores	**11**	9
Promotional Ladies' Apparel Stores	**23**	17
Financial Position:		
Current assets	**$202,692,398**	$159,796,915
Current liabilities	**$102,603,955**	$ 72,502,832
Working capital	**$100,088,443**	$ 87,294,083
Shareholders' equity	**$ 88,233,645**	$ 73,537,856
Number of common shares outstanding at year end	**4,821,273**	4,650,393
Equity per common share	**$17.98**	$15.52

1970	1969	1968	1967	1966	1965	1964	1963
$599,868,532	$490,690,810	$415,434,683	$345,702,887	$278,558,325	$211,984,918	$167,846,772	$115,850,773
$ 16,452,167	$ 18,338,471	$ 14,974,033	$ 14,409,612	$ 11,656,325	$ 7,482,061	$ 3,252,011	$ 2,622,428
$ 8,652,167	$ 9,538,471	$ 8,474,033	$ 8,109,612	$ 6,656,325	$ 4,369,611	$ 1,993,277	$ 1,561,428
4,595,813	4,319,079	4,235,577	4,147,026	3,754,230	3,725,803	3,725,175	3,286,149
$1.85	$2.10	$1.88	$1.87	$1.69	$1.09	$.45	$.37
$1.78	$1.99	$1.78	$1.75	$1.49	$1.04	$.45	$.37
153	131	115	96	83	72	64	47
48	46	45	40	41	43	46	48
7	6	5	—	—	—	—	—
37	32	21	13	4	2	—	—
8	5	4	—	—	—	—	—
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
$140,998,856	$103,844,019	$ 83,368,194	$ 69,970,686	$ 55,771,000	$ 36,235,800	$ 33,110,766	$ 21,891,016
$ 60,649,133	$ 51,384,968	$ 40,705,403	$ 35,960,526	$ 26,742,975	$ 19,805,734	$ 18,996,036	$ 12,364,312
$ 80,349,723	$ 52,459,051	$ 42,662,791	$ 34,010,160	$ 29,028,025	$ 16,430,066	$ 14,114,730	$ 9,526,704
$ 65,516,218	$ 56,328,109	$ 46,739,148	$ 36,790,164	$ 23,746,510	$ 14,907,961	$ 11,694,875	$ 10,023,589
4,615,854	4,569,616	4,283,449	4,169,322	3,795,205	3,730,110	3,725,175	3,531,150
$13.93	$12.10	$10.09	$8.31	$5.85	$3.78	$2.92	$2.62

directors and officers

Directors

Max Feldberg	*Chairman**
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Sumner L. Feldberg	*Executive Vice President**
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Morris Natelson	*Managing Director, Lehman Brothers Incorporated*
Walter J. Salmon	*Professor of Marketing, Harvard Graduate School of Business Administration*
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*member of the Executive Committee

Officers

Max Feldberg	*Chairman*
Stanley H. Feldberg	*President*
Sumner L. Feldberg	*Executive Vice President*
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Morton H. Friedman	*Hit or Miss Division*
David Kaplan	*Sales/Operations*
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Boston, Massachusetts

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New York, New York

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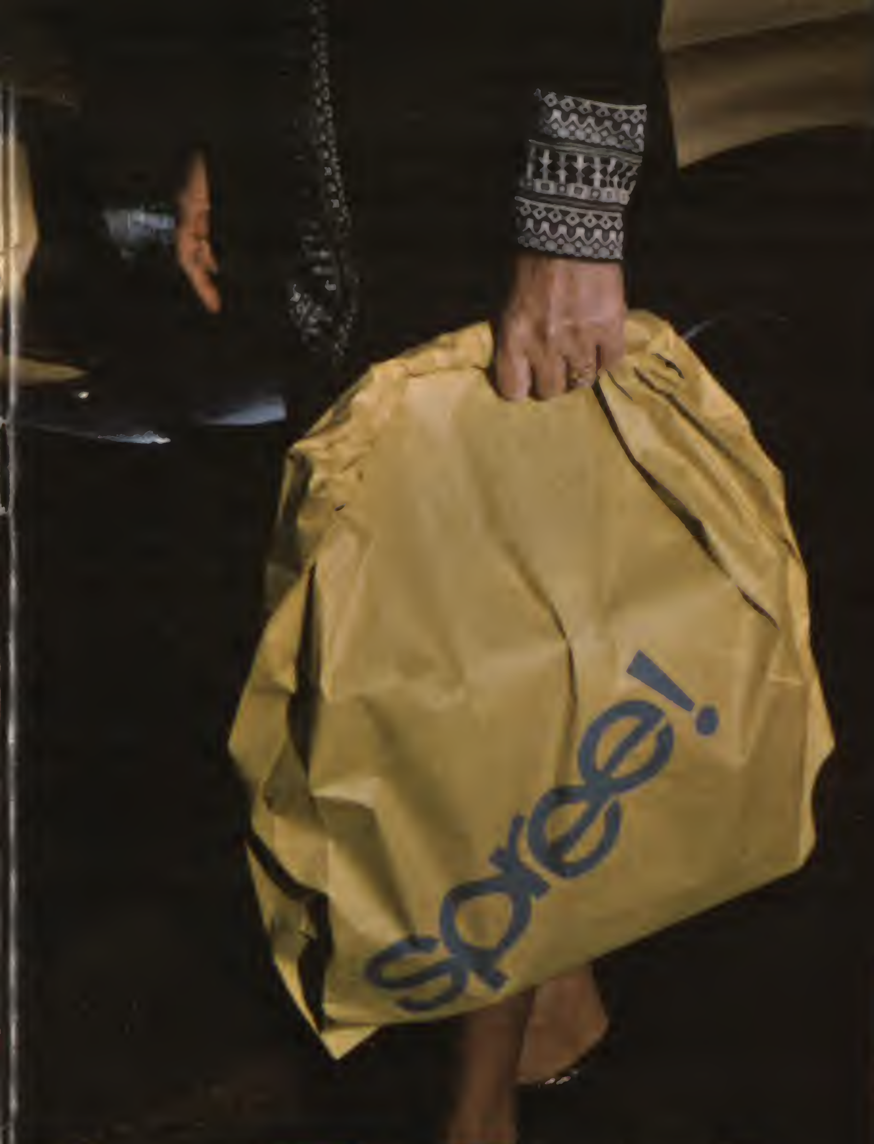
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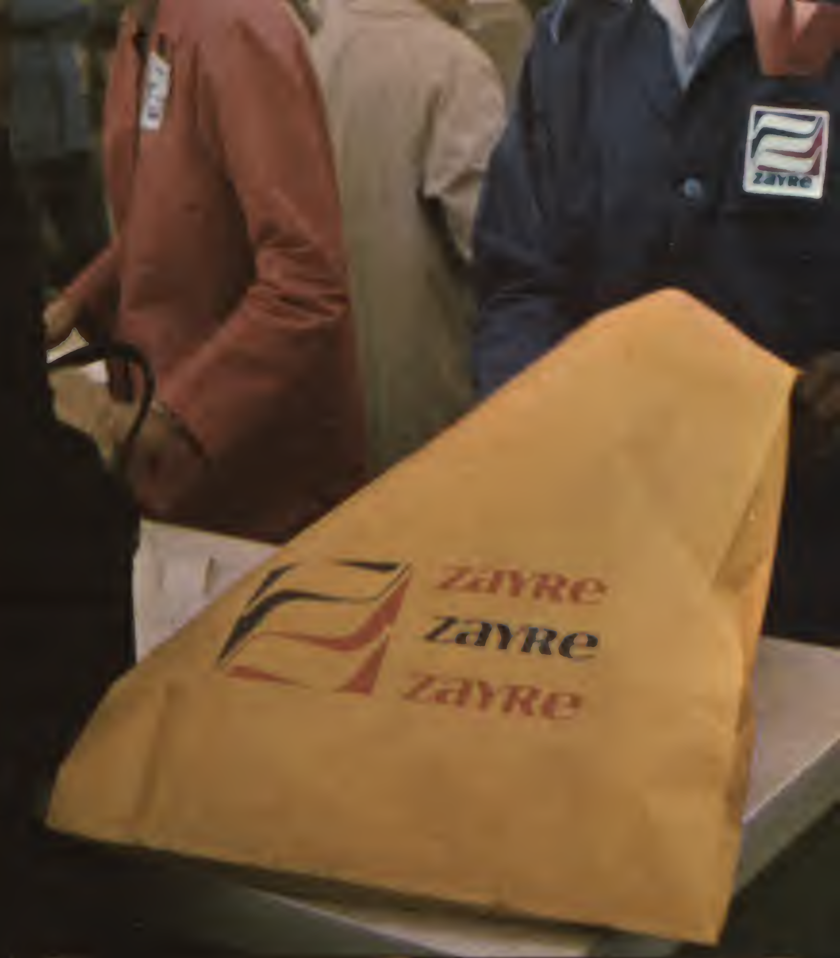
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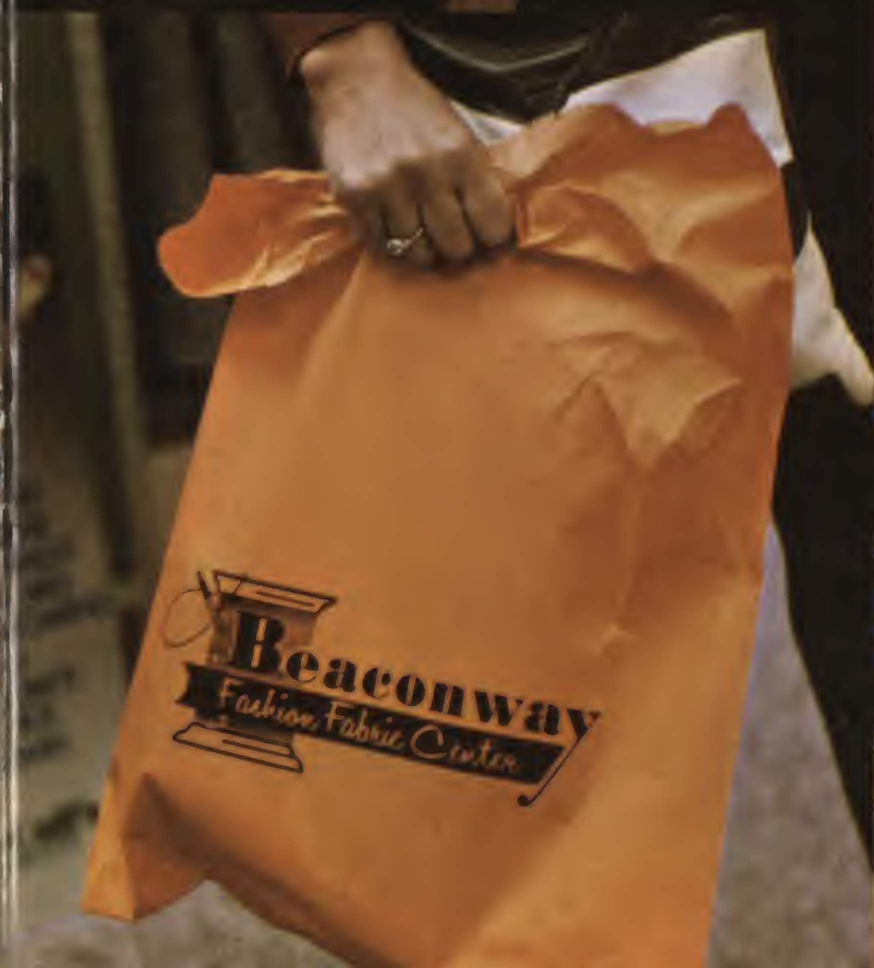
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